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PREPARED BY

BASIC

Business
Analysis
&
Systems
Information
Corporation

PO Box 147
Washington, Virginia 22747
(703) 675-3410

[redacted]



# EMPLOYMENT GENERATION
# THROUGH
# INDUSTRY & COMMERCE
# VOLUME III

## Restructuring of
## Development Finance Corporations
## and
## Establishment of Small
## Industry Loan Fund

Contract AID Lac-C-1268

## VOLUME III

## RESTRUCTURING OF THE DEVELOPMENT FINANCE CORPORATION

## AND

## ESTABLISHMENT OF A SMALL INDUSTRY LOAN FUND

The two indirect instruments for support of employment generation efforts are described herein. The establishment of the two instruments, a restructured DFC system and a small industry loan fund, constitute two of the six activities which make up the total project. The analysis underlying the design of the two instruments was carried out by BASIC analysts Harold Pierce and John Wall, who drew heavily on the work of Mr. Iyer of the CDB and on extensive field work in selected DFCs.

It should be emphasized that the recommendations contained in this volume are contingent upon the cooperative posture of the LDC Governments with respect to DFC restructuring. The Caribbean Development Bank is a resource to the LDCs, and may assist in such restructuring only to the extent that the LDCs seek such assistance. At the same time, it should be equally emphasized that failure to undertake the reforms suggested (or variations thereof) will undoubtably lead to the collapse of the DFC system.

Frank S. Skowronski
President
BASIC

## VOLUME III

### RESTRUCTURING OF THE DEVELOPMENT FINANCE CORPORATION AND ESTABLISHMENT OF A SMALL INDUSTRY LOAN FUND

VOLUME III

LIST OF TABLES

## I ACTIVITY DESCRIPTION

### The Development Finance Corporation Program

The purposes of this program are two: (a) to accelerate the volume and value of loans to small productive enterprises in the LDCs, and (b) to improve the viability of the instruments charged with providing such loans.

Each element in the program addresses either revenue improvement or cost reduction in the DFC's. The project will revitalize those DFC's that are responsive to modification Given present organizational structures and market limitations, it is unlikely that fixed capital lending, of the type which the DFCs are currently undertaking, will produce sufficient revenues to support an adequate level of operating expenditures. Therefore, the program calls for improvement of current practices, and for organizational, policy, and procedural modifications. These include:

a) integration of the DFC function within or attached to a larger financial institution, or the planned evolution of the DFC into a full service financial institution.
b) DFC divestiture of all non-bank functions (provision for such services are treated elsewhere in this project).
c) Provision for DFCs to diversify their portfolios and thus secure additional income.

The main instrument for effecting the changes will be the Loan Supervision Unit of the Caribbean Development Bank, which may operate the DFCs under a "trust" arrangement until such time as integration into their final forms is complete, or at an earlier stage if deemed appropriate by the CDB. The CDB will require additional staff and operating capability to enable it to exercise "trust" functions and to guide DFCs through structural, organizational, and procedural changes.

The DFC modification will be funded with an AID grant which, together with counterpart funds made available by the CDB, will provide for additional staff, technical assistance, and training for the Loan Supervision Unit and the DFCs.

The DFCs vary widely in structure, organization, capitalization, market possibilities, and record of performance. The DFC in Dominica has already been operating as a subsidiary of the Dominica National Bank. Thus there is precedent for, and an experience base on which to effect similar integration in those islands which have National Banking Institutions. These include St. Kitts and St. Vincent. In St. Lucia, legislation permitting the merger of the Agricultural and Industrial Bank, the National Development

Bank, and the Housing Development Bank is being considered. In other LDCs no similar financial institutions are available. In these it will be necessary to convert the DFCs into full service financial institutions, or at least to permit those DFCs to carry out a sufficiently wide range of services to achieve desirable revenue levels.

In view of the wide variation in state and condition of the DFCs, the program design will include activities tailored to each DFC, together with elements which will be common to all.

Activities will follow a sequential pattern, and will include the organizational changes, policy adjustments, establishment of administrative procedures, and training programs.

1. Organizational Changes

(a) Preparation will be made for negotiations with DFC contracting bodies for assumption of trust functions by the DCB, or for concluding other acceptable arrangements. In this process, the organizers will

- select "trust" instruments and functions;
- set time limitations on "trust" role of DFC;
- arrange for surveys of the market area of each DFC;
- determine the level of effort and commitment of funds to each DFC;
- propose a system of fixed Government subventions.

This will be carried out by CDB Management with assistance of the Loan Supervision Unit of the CDB, and AID provided Technical Assistance. (It is expected that the survey requirement can be met by surveys to be conducted by the Caribbean Investment Corporation). The activity will be initiated on St. Lucia and St. Vincent, then extended to each of the other DFCs.

Approximately four months would be required to complete this activity on St. Lucia and St. Vincent. The extension of this activity to Antigua, St. Kitts, Montserrat, Grenada, and Belize would require an additional six months.

The relative rapidity of the extension is predicated upon the availability of defined "trust" instruments, and on the assumption that concurrent negotiations would be conducted by the CDB and the DFCs during the initial eight month period.

(b) The assumption of "trust" responsibilities by the CDB will be accompanied by an audit and a detailed evaluation of the DFC. With reference to the market survey, lending goals will be set, staff adjustments made, and operating criteria established.

(c) In those cases where it is considered feasible to "merge" the DFC with an existing National Commercial Bank, terms and conditions for such "mergers", and a program for fulfillment of such terms and conditions, will be established. It is anticipated that "merger" with an existing national commercial bank will be effected when standard procedures are in full operation, staff adequately trained, and a system of operational transfer established.

(d) In those cases where it is anticipated that the DFCs will undergo transformation into full service financial institutions, organizational and procedural requirements will be established, and organizational changes will be effected as procedural progress permits.

2. Policy Adjustments

Concurrent with the initiation of organizational activities, the CDB and cooperating DFC's would review and adjust policies to facilitate the attainment of DFC viability and acceleration of lending. Policy shifts may include the following:

(a) Remove the present ceiling of US $100,000 on DFC loans;
(b) Soften collateral requirements in response to project outlook;
(c) Permit use of CDB funds for working capital lending;
(d) Remove net worth criterion for lending;
(e) Divest "Trust" held DFCs from all non-banking functions and encourage others to do the same;
(f) Improve mechanism of flow;
(g) Make salary scales in "Trust" held DFCs comparable to private bank rates;
(h) Link use of CDB concessional financing to eventual self-financing of small industry counselling services.

Policy recommendations would be to review and to determine implied effects on organizational procedures and administration. Changes derived from these implications would be incorporated in standard procedures to be set up for all DFCs.

It is anticipated that policy evolution along the lines suggested will require a minimum of about ten months, and will be carried out by the DFC Division of the CDB, with AID provided Technical Assistance functioning under the direction of CDB senior management.

3. Administrative and Procedural Changes

Concurrent with activities 1 and 2, standard procedures will be established for DFC operations. Initially these will be limited to procedures and administrative control for fixed capital and working capital lending. In subsequent periods, additional procedures will be standardized for other portfolio lines.

Included in the procedures to be established are those for:

(a) Budgeting: Budget preparation methods will be set out, and use of its budget as a control and performance measurement device will be elucidated. Of particular importance will be the use of the budget as a means of setting subvention levels and permitting Government to anticipate subvention requirements.

(b) Promotion and Marketing: Procedures for agressive marketing will be prepared and instruments developed for DFC use. These would include survey use and an officer's call program.

(c) Credit Administration: Procedures will be established for appropriate delegation of loan authority, improvement of appraisal methods, credit checks, and interest rate setting and disbursement. Of special importance will be standardization of collection procedures, and the requirement, to be included in future loan agreements between the CDB and the DFCs, for triggering of procedures, if a loan is sixty days overdue.

(d) Internal Audit: Procedures for internal audit will be established, triggering mechanism devised, and the use of audit as managerial tool defined.

(e) Reporting and Processing: A system of internal and external processing and reporting will be established designed, to give management the data required for control, evaluating, and planning. Attention will be devoted to credit files, diary, collateral files, and to preparation and use of statistical services.

(f) Personnel Selection and Management: Job standards will be prepared, and performance criteria established, recruitment procedures established, and, of particularly high importance, new salary ceilings set to bring them in line with commercial bank standards.

This activity will be carried out by the DFC division of the CDB, with assistance and consultation with key members of the existing DFCs and AID provided Technical Assistance. It is expected to be completed within four months.

4. Training:

(a) A basic course will be prepared to introduce key DFC personnel to the procedures delineated in Section 3 above. All key DFC personnel will attend this course. It will be repeated annually for other DFC personnel.

(b) A special course will be provided to loan officers and CIC counselling officers. This course will deal primarily with small loan application problems, and will facilitate effective cooperation between counsellors and DFC loan officers.

(c) Prior to, or during the introduction of new portfolio items to a DFC, specialized courses will be given to managers and personnel, who will undertake those specialized functions.

(d) On-job and Remedial Training will be provided under supervision of the DFC Division of the CDB, to facilitate application of knowledge obtained in formalized training. Also, when internal audit discloses special problems, CDB personnel will assist in resolution of those problems, while instructing DFC personnel in appropriate procedures and techniques.

(e) In addition, DFC managers and CDB personnel and other key personnel will be selected for advanced training at foreign institutes, notably The Economic Development Institute of the World Bank and specialized courses offered by United States universities and the American Bankers Association.

Training courses will be prepared by the DFC Division of the CDB, with the cooperation and assistance of other bank personnel, including the Technical Information Unit and operating divisions. Certain components will be prepared by the CIC. The AID-provided Technical Assistance will consist of personnel which will be made available to both the DFC division and cooperating agencies.

Small Enterprise Loan Fund

This fund will provide a resource pool of U. S. $ 5.0 million for the projected lending needs of the DFC's, and will be designed specifically to render the DFC's viable.

The DFC's serve a total population of less than 700,000 persons, with individual DFC/population ratios varying from 1/135,000 in Belize to 1/13,000 in Montserrat. The industrial community served by these had, in 1970, a gross industrial product of only $19,000,000, ranging from $100,000 in the case of Montserrat to $9,900,000 in Belize. During the period 1970-1977, about $15.0 million in industrial credits were emitted by the CDB. Of these, only $2.0 million was disbursed to small industry in the LDC's. Although future prospects are considerably brighter for industrial lending, the small individual LDC markets for fixed capital lending to small enterprise will, in the foreseeable future, remain characterized by high cost and low volume.

The relatively low effective demand for fixed capital borrowing, seriously threatens the viability of the institutions which have been established to serve the industrial community. The limited demand for fixed capital cannot, under foreseeable circumstances, be increased sufficiently to provide the DFC's with income at levels required for viability. The DFC's can increase income by acquisition of additional loan portfolio items. To do this while still fulfilling a developmental role would restrict such new lending to working capital loans. Fortunately, working capital lending, in particular instances, may produce greater employment efforts than does fixed capital lending. This is particularly so when working capital is the major component in expansion of existing industrial establishments. Barbados, for example, reports that expansion of production of existing facilities produces one job for every U. S. $ 1,400 invested, as against one job per U. S. $ 6,400 invested in new facilities. Frequently, such expansion takes the form of additional shifts. In other, e.g. cottage industry, a simple increase, in purchases of raw material permits production and employment expansion. It should be possible through DFC working capital emission to substantially increase the labor generation effectiveness of lending, while providing for the viability of those agencies.

Further, it seems that the DFC's, as presently constrained, accept high risk situations, and are unable to properly profit from their few successes. Once a DFC project is successful, lending to the firm in volume is considered the proper role for the commercial bank system.

The loan fund herein proposed would permit the DFC's to make working capital loans as part of their overall role in development. Proceeds from the fund, used for working capital, will be subject to the following limitations:

a. Total working capital loans may not exceed the value of total fixed capital loans outstanding.

b. The loans will be limited to those projects in which injection of such funds will have substantial employment generation effects.

c. Working capital may be loaned for processes in which raw material costs figure high in overall costs, e.g. cottage industry.

d. Borrowers must have a net worth of less than U. S. $10,000; except that:

e. Up to 15% of the total AID loan may be used for working capital to firms or individuals whose net worth exceeds U. S. $10,000.

(a) Eligibility and Sub-Loan Limits

Firms eligible for sub-loans under this fund will be the same as those eligible under present SIC criteria, with the following variations permitted:

The net worth exclusion will not be operative if project appraisal indicates strong employment generation probabilities and if the project is financially sound.

Loans may be made to Caribbean-foreign joint venture companies provided that effective control is in Caribbean hands or that instruments for transfer of control are satisfactory. The sub-loans ceiling will be raised to $150,000.

Only in cases where the DFC intends to make sub-loans in excess of $75,000 will prior consultation with the CDB be required.

(b) Future Provision for Working Capital and Other Funds

The provision for working capital from this loan is considered as a temporary measure to increase viability probabilities of the DFC during a period of change to a full service financial institution.

Upon full conversion it is expected that IPC and time deposits will provide resources for working capital and other portfolio items, as well as for long-term fixed capital lending. Thus, the conversion of the DFC's initiated with these funds would ultimately result in and increase in available developmental capital from local resources.

(c) Interest Rates

The transition toward commercial bank operation provides the DFC's with new instruments for viability, which will be related to financial market forces. Thus, the DFC's will be expected to increasingly compete in that market. In practice, this means they will be required to be made more efficient in operations, money management, and revenue generation. Under these new operating terms it is hardly justified to fix interest rates for years in advance; neither is it appropriate to burden institutions committed to the high cost, high risk, low return lending, with interest rates below those of low cost, low risk, high return lenders. Funds from this loan will be loaned at rates pegged to current commercial bank rates, and are expected to fluctuate approximately 1% above or below commercial rates depending upon project appraisal results. The loan agreement, unlike earlier loans, will set a minimum sub-borrowing rate of 8%; that rate, however, will be utilized only in exceptional cases.

(d) Cost of Funds to the DFC's

The DFC's are expected to obtain funds at 4%, thus enabling them to obtain a "spread" of 4% to 6% on relending. The "soft" terms provided respond to (1) the immediate revenue problem brought about by the high cost of small enterprise lending; and (2) the need for an eventual source of small business assistance funds. It is anticipated that, as viability and increased profitability of the DFC's occurs in their expanded roles in or as commercial banks, a portion of the spread available from the soft term loans will be used to defray technical assistance programs carried out by the CIC.

(e) Loan Amount and Allocation

The funds provided by this loan will total U. S. $5.0 million at 3% interest for 20 or 30 years with a 10 year grace period at 2% interest. 40% will be allocated to the MDC's, and 60% to the LDC's. Thus, U. S. $3 million will be available to the LDC's, or an average of about U. S. $430,000 per DFC. The funding obviously is not intended to supply the full credit needs of the DFC's, but to perform a demonstration function upon which subsequent international lending can be predicated. Elements of the proposed IADB loan now under discussion by the CDB and the IADB, will be determined in part by the experience of this loan and its attendant DFC reform activities.

## II. ACTIVITY RATIONALE

### A. Background

The Development Finance Corporations were instituted by the various LDC Governments to provide for small project developmental lending in each nation. It was considered inappropriate and too costly to provide for such lending from a single centralized source. The Caribbean Development Bank was to limit itself to lending for larger projects, while the DFC's were to make loans no greater than US $37,000. In some instances, DFC's were established to specialize in housing, agriculture and industry; others were established for general purpose development lending.

The need for development lending in the LDC's is undisputed. The region is capital short, and productive investment clearly a priority requirement. With increasing population, growing labor surpluses, and persistent balance of payment problems, investment gaps already serious will become critical. The DFC's which were designed to provide investment channels, would be expected to fill these gaps, but in practice, to date, they have been inadequate in delivery of credit, and have incurred operating deficits of such magnitude as to raise serious doubts of their viability.

This program is intended to restructure the DFC's to render them viable, while improving the flow of capital funds for private sector development.

In the process of restructurization, it is intended to adjust the terms and conditions of lending by the DFC's, so that latent demand for credit will become effective demand. The success of this operation would exhaust the funding now available to the DFC's. Thus to achieve optimum use of the restructured DFC's, an additional line of credit is recommended, with special terms and provisions to meet the special requirements of the DFC's.

## B. Need for Funds

Two planned project lists have been compiled and are the basis for the estimation of evolving industrial loan requirements. The first, provided by LDC agencies, estimates a project need of US $39.2 million, of which the loan components would total US $24.4 million. The second, compiled by the CDB, for the period 1978-1981, projects potential loan requirements of US $10.7 million. (See Tables 1 and 2). The CDB has reduced the requirement by allowing for project slippage and for projects which would not meet A.I.D.'s capital employment ratio criteria. The reduced requirement totals US $4.0 million, and involves relatively large projects.

The list compiled by LDC agencies includes large project lending valued at US $14.0 million. The large project loan list must be reduced by US $1.2 million by elimination of sugar and tobacco projects. Further reductions are required for slippage in those projects which are at present only at the conceptual stage. These have been reduced by 70%, which reduces these from US $9.1 million to US $2.7 million; of the remaining proposed loans, a reduction of 50% is made, yielding about $6.3 million for projects which have a reasonable hope for reaching loan application stage.

Of the small loan potential, projects valued at US $26,400 appear reasonably well advanced. The remainder have been reduced by 50%, to provide for slippage yielding about US $568,000, for a total of US $832,000. Should these be considered additive to the present annual pace of lending by the DFC's, small loan demand would, over the next three years, amount to about US $5.5 million. If, as is suggested elsewhere in this paper, the DFC's be allowed to lend to foreign/Caribbean joint ventures, the effective loan demand would be considerably greater.

Thus, maximum lending probabilities derived from the two sources would be approximately US $15.8 million, about US $10.3 million in large project lending, and US $5.5 million in small project lending.

Funds in present lines of credit available to the CDB are considered insufficient to provide for on-lending for these new projects. Availability and disposition of funds are shown in Table 3.

C. Repayment Capacity of the CDB

AID has provided 5 prior loans to the CDB totalling U. S. $16.9 million. The status of these loans is summarized below.

| Loan # | Date Executed | Terminal Disbursement Date | Amount | Commitment | Disbursement |
|---|---|---|---|---|---|
| 538-L-001 | 12/70 | 6/30/77 | 10,000 | 10,000 | 10,000 |
| 538-L-002 | 11/72 | 12/31/78 | 8,400 | 8,400 | 6,330 |
| 538-L-003 | 5/73 | 12/31/78 | 12,000 | 11,456 | 3,981 |
| 538-L-006 | 6/76 | 10/30/80 | 10,000 | 0 | 0 |
| 538-L-007 | 3/77 | 3/31/82 | 6,500 | 0 | 0 |

Based on current projections all loans are expected to be fully disbursed by the termination dates called for and no unusual problems are anticipated. Total loan disbursements by CDB were $50.7 million in 1976 and U. S. $74.0 million in 1977 which have produced net revenues of $1.4 million and $2.3 million respectively in those years. It is general CDB practice to transfer these earnings to a reserve fund. This reserve is available to meet possible future losses on loans and guarantees made by the Bank in its ordinary operations and possible losses from currency devaluations. The reserve grew by 50% from 1977 to 1978 to a total of U. S. $6.5 million.

Table 1

LOAN POSSIBILITIES
BY COUNTRY & PROJECT
(US $ Thousands)

| Project Name & Country | Total Cost | Loan Requirements | Stage of Project Development |
|---|---|---|---|
| BARBADOS | | | |
| Food Processing | $6,000 | $4,000 | Pre-identification |
| Limestone & Clay Deposit | 6,000 | 4,000 | Pre-identification |
| Oistins Fisheries Project | 10,000 | 6,000 | Feasibility in Progress |
| TOTAL | 22,000 | 14,000 | |
| ST. LUCIA | | | |
| Coconut Processing | 815 | 490 | Final Draft available T.A. required |
| TOTAL | 815 | 490 | |
| ST. KITTS/NEVIS/ANGUILLA | | | |
| Industrial Infrastructure | 556 | 333 | Project on-going |
| TOTAL | 556 | 333 | |
| DOMINICA | | | |
| Manufacture Pozzolana, Lime, Blocks & Cement | 385 | 231 | Concept identified feasibility T.A. required |
| Lime Kiln | 200 | 120 | Concept identified T.A. required |
| Forest Industry various projects | 3,704 | 2,222 | Concept identified considerable T.A. required |
| Agricultural Processing | 204 | 120 | - |
| Pilot Project Saw Mill | 260 | 156 | On-going T.A. none |
| TOTAL | 4,753 | 2,849 | |
| ST. VINCENT | | | |
| Owia Arrowroot Factory | 150 | 90 | Components identified T.A. none |
| Government Bonded Warehouse | 1,480 | 888 | Project ID completed T.A. none |


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| | | | |
|---|---|---|---|
| <u>ST. VINCENT</u> (Cont'd) | | | |
| Tyre Retreading | 75 | 45 | |
| Plastic Bag Manufacture | 150 | 90 | |
| Printery | 200 | 120 | |
| Hotel Cottages | 100 | .60 | |
| Biscuit Factory | 200 | 120 | |
| Clothing | 60 | 36 | |
| TOTAL | 2,415 | 1,449 | |
| <u>GRENADA</u> | | | |
| None | | | |
| <u>MONTSERRAT</u> | | | |
| Dairy Plant | 400 | 240 | Feasibility Study prepared. T.A. required. |
| Emerald Isle Leather | 677 | 406 | Being examined, T.A. on request |
| Match Manufacture Project | 600 | 360 | Feasibility Study, T.A. required |
| Montserrat Apparel Manufacture | 200 | 120 | Prepared, Full T.A. |
| Montserrat Industrial Enterprise | 500 | 300 | Company formed Management, T.A. required |
| Montserrat Plastics | 1,000 | 600 | Project report needed full T.A. required |
| Various Small Projects: | | | |
| Osmund West Woodwork | | | |
| Frank Daly Printery | | | |
| Rudolph Sweeny Woodwork | | | |
| Juan Morrison Iron Work | | | |
| William Allen Woodwork | | | |
| Emerald Isle Bay Rum | | | |
| Total Small Projects | 36 | 22 | |
| TOTAL | 3,413 | 2,048 | |
| <u>ANTIGUA</u> | | | |
| Tomato Processing | 436 | 262 | Feasibility not finalized T.A. none |
| Industrial Estates | 1,234 | 740 | Concept & Cost Complete T.A. needed |
| Handicrafts | 80 | 48 | Implementing, T.A. required |
| TOTAL | 1,750 | 1,050 | |

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NO. 15

Table 2

**PIPELINE OF DIRECT MANUFACTURING LOAN PROJECTS**
**1978-1981**

| | Project* | Country | 1978-79 | 1980 | 1981 | Total | Adjusted | Total** |
|---|---|---|---|---|---|---|---|---|
| LDCs | Chemical Lime | Antigua | 480 | | | 480 | | |
| | Toilet Paper | Grenada | 100 | | | 100 | | |
| | Printing - Writing Paper | Dominica | 120 | | | 120 | | |
| | Printing - Writing Paper | Belize | 120 | | | 120 | | |
| | Printing - Writing Paper | Grenada | 100 | | | 100 | | |
| | Salt | St. Kitts | 400 | | | 400 | | |
| | Forest Products | Dominica | | 500 | 1,000 | 1,500 | | |
| | Sugar By-Products | St. Kitts | | | 300 | 300 | | |
| | Nuts and Bolts | Grenada | | 400 | | 400 | | |
| | Builders Hardware | St. Vincent | 400 | | | 400 | | |
| | Margarine | Belize | 440 | | | 440 | | |
| | Banana Fibre Products | Various LDCs | | 1,100 | 500 | 1,600 | | |
| | Coir Fibre Products | Various LDCs | | 400 | 700 | 1,100 | | |
| | | | 2,160 | 2,400 | 2,500 | 7,060 | | 4,600 |
| MDCs | Paper Re-cycling | Guyana | 180 | | | 180 | | |
| | Concrete Pipes | Guyana | | 120 | | 120 | | |
| | Forest Products | Guyana | 800 | 800 | | 1,600 | | |
| | Forest Products | Bahamas | | | 400 | 400 | | |
| | Sugar By-Products | Barbados | | 600 | | 600 | | |
| | Sugar By-Products | Guyana | | 700 | | 700 | | |
| | | | 980 | 2,220 | 400 | 3,600 | | 2,300 |
| | | | | | | | | 6,900*** |

Notes: *This list excludes projects (such as Salt in Turks & Caicos, Cement in Guyana & Grenada, and Flour in the Bahamas) which seem, a priori, too capital intensive to meet the capital cost per-job constraint.

**The projected loan totals are reduced by approximately 35% to compensate for projects which might not materialize, and to bring the totals in line with what might be realistically accomplished with present staff levels.

***If we assume that 40% of the net total represents projects which would not qualify under the capital cost-per-job ratio, an AID Loan of US $4 mn., would seem justified.



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## Table 3

**CARIBBEAN DEVELOPMENT BANK**
**RETURN OF DISBURSEMENT AS AT MAY 31, 1978**
**EXPRESSED IN 000'S U.S. DOLLARS**
**SUMMARY 1**

BD 45/78

| NAME OF FUND | AMOUNT OF FUND | LOANS APPROVED NO. | LOANS APPROVED VALUE | SIGNED AGREEMENTS NO. | SIGNED AGREEMENTS VALUE | DISBURSEMENTS CUMULATIVE NO. | DISBURSEMENTS CUMULATIVE AMOUNT | YEAR TO DATE 1978 | YEAR TO DATE 1977 |
|---|---|---|---|---|---|---|---|---|---|
| A. ORDINARY CAPITAL RESOURCES | | | | | | | | | |
| (i) MEMBERS' SUBSCRIPTION | | | | | | | | | |
| Secondary Market Fund | 3,000 | ** | 1,532 | - | - | ** | 1,430 | 86 | 87 |
| Other 1/ | 31,453 | 37 | 21,911 | 37 | 21,911 | 36 | 21,166 | 197 | 1,675 |
| (ii) WORLD BANK - ORDINARY | 17,000 | 8 | 19,651 | 6 | 10,731 | 1 | 2,515 | 163 | 485 |
| (iii) WORLD BANK - THIRD WINDOW | 3,000 | 1 | 222 | 1 | 222 | - | - | - | - |
| (iv) EXPORT IMPORT BANK OF JAPAN | 8,993 | - | - | - | - | - | - | - | - |
| (v) REGIONAL CENTRAL BANK BONDS | 10,000 | - | - | - | - | - | - | - | - |
| | 73,446 | 46 | 43,316 | 45 | 32,914 | 37 | 25,111 | 446 | 2,247 |
| B. SPECIAL FUNDS RESOURCES (HARD) | | | | | | | | | |
| VENEZUELA TRUST FUND | 25,022 | 11 | 12,662 | 9 | 10,516 | 6 | 7,341 | 615 | 1,091 |
| TOTAL HARD FUNDS (A & B) | 98,468 | 57 | 55,978 | 53 | 43,428 | 43 | 32,453 | 1,061 | 3,338 |
| C. SPECIAL FUNDS RESOURCES (SOFT) | | | | | | | | | |
| (i) SPECIAL DEVELOPMENT FUND: | | | | | | | | | |
| Canada | 20,424 | 13 | 10,324 | 13 | 10,324 | 12 | 9,330 | 1,304 | 665 |
| Colombia - a) Loan | 4,500 | 2 | 607 | 2 | 607 | 2 | 528 | - | 25 |
| - b) Tech. Asst. | 500 | - | 18 | - | - | - | 16 | 1 | - |
| Federal Republic of Germany | 8,156 | 3 | 926 | 3 | 926 | 2 | 675 | 17 | 101 |
| New Zealand - a) Tech. Asst. | 612 | - | 227 | - | - | - | 227 | 40 | - |
| - b) Contingent Loans | - | 1 | 52 | - | - | - | - | - | - |
| United Kingdom | 12,661 | 21 | 7,785 | 21 | 7,785 | 17 | 5,800 | (31)2/ | 430 |
| USA Loan No. 1 | 10,000 | 18 | 10,000 | 18 | 10,000 | 18 | 10,000 | - | 268 |
| USA Loan No. 3 | 12,000 | 25 | 14,041 | 20 | 12,157 | 16 | 3,286 | 299 | 1,009 |
| Venezuela - a) Loans | 9,000 | 8 | 5,797 | 2 | 5,797 | 2 | 5,734 | 2,021 | 536 |
| - b) Contingent Loans | 1,000 | 10 | 572 | 7 | 440 | 4 | 166 | 87 | - |
| Pool | - | 16 | 11,361 | 12 | 13,657 | - | - | - | - |
| SUB-TOTAL | 78,853 | 111 | 67,690 | 90 | 61,691 | 79 | 35,748 | 3,718 | 3,028 |
| (ii) OTHER SPECIAL FUNDS | | | | | | | | | |
| Agric. Fund - Canada | 7,396 | 23 | 6,925 | 22 | 6,740 | 18 | 3,501 | 218 | 112 |
| - USA Loan No. 6 | 10,000 | 5 | 2,162 | 4 | 2,015 | - | - | - | - |
| - USA Loan No. 7 | 6,500 | - | - | - | - | - | - | - | - |
| - Com. Livestock Loan | 2,000 | 1 | 2,455 | 1 | 2,455 | - | 1,046 | 1,046 | - |
| - Com. Livestock Grant | 246 | - | - | - | - | - | 246 | - | 2 |
| C/Part Contri. - Trinidad & Tobago | 4,167 | 30+ | 2,274 | 29+ | 2,189 | 19+ | 1,803 | 123 | 163 |
| USA Loan No. 2 - Primary Market | 5,100 | 10 | 4,936 | 10 | 4,936 | 10 | 4,613 | 736 | 617 |
| - Secondary Market | 2,800 | ** | 1,494 | - | - | ** | 1,886 | 25 | - |
| - Technical Asst. | 500 | - | - | - | - | - | 405 | 88 | - |
| Pool | - | 2 | 375 | 2 | 375 | - | - | - | - |
| AIDB - Loan | 500 | - | - | - | - | - | - | - | - |
| - Grant | 1,000 | - | - | - | - | - | - | - | - |
| SUB-TOTAL | 40,409 | 41 | 20,623 | 39 | 18,710 | 28 | 12,903 | 2,256 | 873 |
| TOTAL | 119,262 | 152 | 88,313 | 129 | 80,403 | 107 | 48,651 | 5,994 | 3,901 |
| GRAND TOTAL | 217,730 | 209 | 140,250 | 190 | 123,831 | 144 | 81,094 | 7,035 | 7,239 |

** See Summary Sheet No. 4 for number of mortgages
+ Not numerically included
1/ Includes Promissory Notes totalling $3,296
2/ Loan transferred from SDF-UK to SDF-CAN

## D. General Performance of the DFCs

Ten Development Finance Corporations operate in the Eastern Caribbean and Belize. Latest available date reveal that over the past five years they collectively have approved US $7.8 million in sub-loans, accrued a net operating loss of US $202,000, and it is known that at least 630 loans, valued at US $2.0 million, are currently in arrears. The DFC system is staffed by 145 persons, has an annual salary bill of about US $360,000, and approximate annual operating ocsts of US $855,000. Thus, operating costs are, on average, 8% of sub-loan portfolio value.

The system has equity (or near equity) valued at US $4.6 million, a debt equity ratio of 2.5:1, and total banking assets of about US $13.4 million. Nearly half of the assets, and more than half of the equity, is attributable to the one DFC in Belize. (For DFC performance profiles see Tables 4 to 7.

### Factors Effecting Performance

The generally poor performance of the DFC's is partially attributable to the tiny market served. In no case is there evidence that the constraints imposed by such markets were taken into account by the governments of the LDC's; nor, it seems, by the CDB, which apparently accepted the opinion of the governments viz. that after a few years of deficit (off-set by sub-ventions), the institutions would be viable. In fact only four LDCs (Belize, Antigua, St. Lucia and Grenada) appear capable of supporting well run independent financial institutions devoted primarily to the provision of fixed capital. (see Tables 4 & 5). Even in these, the development of markets would appear to proceed at a pace insufficient to generate income at rates required for financial soundness (except for Belize).

The market for the Region is estimated at about US $20.0 million, of which the DFC's have acquired less than US $8.0 million. The relatively low portfolio acquisition and low annual acquisition rates, spring from the relative novelty of the institutions, lack of experience, and the difficulties in acquiring staff. However, the problems have been exacerbated by operating characteristics which have impaired efficiency, while simultaneously building administrative costs to a level which, as a percentage of total portfolio, exceeds 8%. Generally, reported percentages for the DFCs in Asia and Latin American show an average below 2%. (See Table 8 ).

Of particular concern in the litany of operative problems, is the appraisal system; its criteria and application. Serious defects appear in project appraisals, and in the appraisal of collateral. The first has contributed to a high degree of exposure to bad debts; the second raised grave doubts as to the salvageability of those exposed loans. Spot reviews of collateral documents indicate that the recorded collateral value is not sufficient to meet stated criteria, and that collateral evaluation is rarely confirmed. This situation, serious in any case, is made more so by the fact that approximately 26% of total DFC sub-loan portfolio is reported to be currently in arrears.

Examination of a mix of AIC, FIC and SIC lending valued at US $2.8 million, and involving 632 loans, reveal 50% of the loans in arrears, and 50.00 of the portfolio value is affected. (See Table 9 ).

Staffing difficulties are endemic; these stem primarily from inadequate salary levels, which frequently are as low as US $250.00 per month for professionals. Given the extremely small pool of experienced financial personnel to draw upon, the salary policy has precluded access to that pool. The governments' involvement in the DFCs has further re-inforced the belief that DFC salaries should be pegged to the Civil Service rates.

In those few cases where talented and experienced managers have been recruited, they are handicapped by untrained and poorly qualified staff assistants. The lack of qualified personnel has led to expansion of staff, in the hopes that larger numbers of personnel can compensate for quality defects. Thus, administrative costs are increased, without commensurate increases in the staff effectiveness. Weaknesses show up in a variety of ways; commonly internal audits are infrequent and incomplete; reports for management use and for use in DFC analysis are rarely forthcoming. In some instances, operating reports are two years behind schedule, and critical information is not available at the DFCs themselves. There is casual control of collateral documents, loan recoveries are not segregated, delinquencies are sometimes not aged, and no clear and definite procedures exist for collections.

While it might be expected that staffing and other administrative costs would decline as a percentage of total portfolio as portfolio value increases, this has not always been the case. For example, Belize in 1975 had BD $5.6 million in portfolio, with staff costs at BD $152,000. In 1976 portfolio rose to BD $8.3 million, while administrative costs grew 67% to BD $257,000, a rise from 2.7% to 3.1% of portfolio.

The DFCs frequently operate as though arms of the government. In some instances final loan approval rests with the Minister of Finance. The statutes under which they were established made no provision for insulating them from political powers, and in fact facilitated such interference. It is noteworthy that national commercial banks, formed with substantial government participation, but under the "Companies Acts" are relatively free from undue government influence.

The most glaring example of improvident governmental policy is the duplication of lending facilities in the small markets. Two or more DFC type institutions have been established for housing, agriculture, and industry. Various states thus segmented markets which in their totality were already marginal.

The inadequacy of operating margins is partially attributable to high administrative costs on the expenditure side; on the income side it is attributable to interest rate limitations of the DFCs. Loans made with soft funds are held to an 8% interest rate to sub-borrowers, while 10% is permitted for hard funds. The limitations defeat the purpose of the soft lending by international agencies, which is to provide a greater spread to nascent institutions. It also flies in the face of good loan appraisal principles, which recognize that if a project is calculated to succeed or fail on the basis of a few interest points, the project is unacceptable, except perhaps, for utilities. It also flies in the face of the interests of the small borrowers, who are rarely concerned with small variations in interest, but instead are concerned with obtaining funds not otherwise obtainable. It is probable that those who seek to provide low cost funds to the small businessman in the Caribbean will create a situation where no funds will be available. The Institutions charged with delivery of unrealistically low cost credit, will be increasingly weakened by success of such deliveries.

As noted above, the DFCs suffer from a wide range of deficiencies However, the underlying weakness of the institutions stems from two factors: (1) the limited size of the markets served, and (2) the relatively high costs of serving such markets.

The market, already small, has been rendered smaller for the DFCs by the limitations placed on their industrial loan ceilings and conditions of lending The DFCs are permitted to lend only up to a maximum of US $37,000, and only to borrowers with a net worth less than US $55,600; thus the successful cannot qualify, and the others cannot meet security requirements. The DFCs were, in fact, established to deal with the highest cost, highest risk lending, in markets where no advantage of scale could offset the inherent disadvantages of such lending. The average SIC/FIC loan made by DFCs was US

$6,000, and a total of only about 400 loans were authorized during the period.

To further detract from market opportunities, the DFCs are in direct competition with established commercial banks, which, in 1977, carried industrial, and agricultural loan portfolios of US $38.2 million. While it is true that the bulk of commercial bank credit is for short-term working capital, land acquisition, etc., the banks report that approximately 35% of their total portfolios are long-term (i.e. five years or more). The commercial banks, due to their flexibility, are in a position to siphon off the soundest long-term fixed capital loans, leaving to the DFCs those which do not meet their appraisal criteria.

The DFCs were established without any evidence of market analysis. The governments agreed to provide subventions to cover losses, but these were predicated upon the assumption that such losses would occur during the early years of operation, and eventually be unnecessary. In practice, the blank check subvention agreements have probably been, in part at least, counter-productive. With no financial constraints placed on the DFC management, performance criteria were not established. As losses mounted, governments were increasingly reluctant to make full subventions, in the hope that such withholdings would introduce a greater degree of good financial management and cost reduction. Further, the degree of government involvement in the DFCs was given even greater impetus by the arrangement, and, with greater government involvement, management was further weakened.

Table 4

PROFILE OF DFCs IN LDCs

(US $000s)

(Based on latest available figures)

| Country & Bank | Average Banking Assets | Debt/Equity Ratio | Sub-loans | Operating Spread /1 % | Net Worth Result (Loss) | Decapitalisation % |
|---|---|---|---|---|---|---|
| 1. Antigua (ABDB) | 1,111 | 2.05:1 | 796 | 2.0 | (95) | 14.7 |
| 2. Dominica (NCDB) | 687 | 3.65:1 | 436 | 1.7 | (13) | 9.5 |
| 3. Grenada (GAIDC) | 934 | 95.2:1 | 411 | Negative | (4) | Creditors Affected |
| 4. Montserrat (DFMC) | 559 | 0.67:1 | 143 | Negative | (80) | 39.3 |
| 5. St. Kitts (DFC) | 307 | 214.7:1 | 769 | 0.01 | (14) | Creditors Affected |
| 6. St. Lucia (AIB) | 972 | 2.05:1 | 798 | 3.6 | (46) | 16.4 |
| 7. St. Lucia (NDC) | 1,877 | 0.76:1 | 185 | Negative | (173) | 4.6 |
| 8. St. Vincent (ACDB) | 293 | 24.4:1 | 114 | 0.9 | (6) | Creditors Affected |
| 9. St. Vincent (DFC) | 211 | --- | 508 | 2.5 | (43) | Creditors Affected |
| Total | 6,971 | | 3,760 | | (474) | |

/1 Approximate - based on net income from deployment of funds divided by equity and loan capital deployed

Based on uncredited financial statements 1977 & 1978.

Source: Caribbean Development Bank.

Table 5

**ASSET PROFILE OF DFCs IN THE LDCs**
(US $000s)

| Country & Bank | Cash and Invest-ments | Sub-loans | Industrial Sheds | Banking Assets | Agency Assets | Fictit-ious Assets | Total Assets | Average Banking Assets 1976 and 1977 |
|---|---|---|---|---|---|---|---|---|
| 1. Antigua (ABDB) | 431 | 796 | 360 | 1,234 | 476 | 77 | 1,520 | 1,111 |
| 2. Dominica (NCDB) | 261 | 436 | 65 | 694 | 410 | 14 | 760 | 687 |
| 3. Grenada (GAIDCO) | 34 | 411 | | 932 | 37 | 16 | 933 | 934 |
| 4. Montserrat (DFMC) | 103 | 143 | | 256 | | 160 | 310 | 555 |
| 5. St. Kitts (DFC) | 57 | 369 | 260 | 295 | 290 | 106 | 604 | 307 |
| 6. St. Lucia (AIB) | 164 | 798 | | 1,024 | | 20 | 284 | 972 |
| 7. St. Lucia (NDC) | 1,101 | 185 | 879 | 2,014 | 953 | 76 | 8,028 | 1,877 |
| 8. St. Vincent (ACDB) | 46 | 114 | | 261 | | 11 | 261 | 293 |
| 9. St. Vincent (DFC) | 7 | 508 | 228 | 107 | 423 | 24 | 1,850 | 211 |
| 10. Belize (BFC) | NA | 4,013 | NA | 6,583 | NA | NA | NA | NA |
| TOTAL | 2,204 | 7,773 | 1,792 | 13,400 | 2,589 | 504 | 14,550 | 6,947 |

Based on uncredited financial statements 1977 & 1978.

Source: Caribbean Development Bank.

Table 6

LIABILITY PROFILE OF DFCs IN LDCs
(US $000s)

| Country & Bank | Equity and Near Equity | Long-term Loans CDB | Long-term Loans Other | Long-term Total Loans | Short-term Other Loans | Long-term Debt to Equity | Provision and Other items Not outside Liability |
|---|---|---|---|---|---|---|---|
| 1. Antigua (ABDB) | 519 | 399 | 661 | 1,061 | | 2.05:1 | 74 |
| 2. Dominica (NCDB) | 152 | 541 | 15 | 556 | 12 | 2.65:1 | 26 |
| 3. Grenada (GAIDCO) | 9 | 186 | 696 | 881 | 35 | 95.2:1 | 2 |
| 4. Montserrat (DFMC) | 406 | 139 | 135 | 274 | | 0.67:1 | 125 |
| 5. St. Kitts (DFC) | 4 | 303 | 492 | 795 | | 214.7:1 | 125 |
| 6. St. Lucia (AIB) | 350 | 219 | 500 | 719 | | 2.05:1 | |
| 7. St. Lucia (NDC) | 1,663 | 857 | 400 | 1,257 | 7 | 0.76:1 | |
| 8. St. Vincent (ACDB) | 11 | 136 | 126 | 262 | | 24.4:1 | |
| 9. St. Vincent (DFCO) | | 704 | 48 | 751 | 40 | Nil | |
| 10. Belize (BFC) | 1,459 | 3,077 | 1,997 | 5,074 | NA | 3.42:1 | NA |
| TOTAL | 4,573 | 6,561 | 5,070 | 11,630 | 94 | 2.5:1 | 227 |

Based on uncredited financial statements, 1977 & 1978.

Source: Caribbean Development Bank.

Table 7

INCOME AND EXPENDITURE PROFILE OF DFCs IN LDCs

| Country & Bank | Income From Loans | Income From Invest- ments | Other Income | Total Income | Finan- cial Expendi- ture | Admin. Expendi- ture | Provisions | Net Working Result (Loss) | Gov't Subven- tion | Approx. Operating Margin % |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Antigau (ABDB) | 61 | 29 | 3 | 93 | 59 | 61 | 68 | (95) | - | 2.0 |
| 2. Dominica (NCDB) | 18 | 8 | - | 26 | 14 | 20 | 18 | (13) | 12 | 1.7 |
| 3. Grenada (GAIDCO) | 43 | - | - | 43 | 52 | 34 | - | ( 4) | 41 | Negative |
| 4. Montserrat (DFMC) | 4 | - | 9 | 13 | 10 | 83 | - | (80) | - | Negative |
| 5. St. Kitts (DFC) | 26 | - | 13 | 39 | 21 | 22 | 40 | (14) | - | 0.01 |
| 6. St. Lucia (AIB) | 64 | 2 | 2 | 69 | 28 | 54 | 28 | (46) | - | 3.6 |
| 7. St. Lucia (NDC) | 8 | 3 | 110 | 121 | 33 | 90 | 38 | 23 1/ | 37 | Negative |
| 8. St. Vincent (ACDB) | 16 | 1 | 1 | 18 | 14 | 26 | 6 | ( 6) | 11 | 0.9 |
| 9. St. Vincent (DFCO) | 36 | 2 | 9 | 46 | 23 | 45 | 13 | ( 6) | 28 | 2.5 |
| 10. Belize (DFC) | n/a | n/a | n/a | n/a | n/a | n/a | n/a | 77 2/ | n/a | - |
| TOTAL | 276 | 45 | 147 | 468 | 254 | 435 | 211 | (164) | 129 | |

Notes: 1/ Taking into account income from sale of land, and foreign exchange loss of $530,000.
2/ Does not include provision for loan losses.

Based on uncredited financial statements, 1977 & 1978.

Source: Caribbean Development Bank

Table 8

PORTFOLIO ANALYSIS FOR SELECTED DEVELOPMENT FINANCE CORPORATIONS

| | Caribbean LDCs | Republic of Korea | | | | India | | Colombia | |
|---|---|---|---|---|---|---|---|---|---|
| | 10 DFCs | Medium Industry Bank (MIB) | Korea Development Bank (KDS) | Korea Development Finance Corporation (KDFC) | State Financial Corporations (SFCs) | Industrial Development Bank of India (DBI) | Industrial Credit And Investment Corporation Of India Ltd.(ICICI) | Coporacion Financiera Popular (CFP) | Private Financieras |
| **Quality of Portfolio** | | | | | | | | | |
| Principal in arrears for over over three months (% of loan portfolio) | 4.3 | 2.0 | 2.0 | 2.2 | 9.8 | 0.5 | 2.6 | 9.5 | 2.9 |
| Long-term portfolio arrears of over three months (%) | 29.0 | 7.6 | 14.0 | 6.6 | 39.3 | 4.1 | 7.4 | 16.6 | 4.9 |
| **Administrative Costs** | | | | | | | | | |
| as % of average total assets | 8.3 | 3.5 | 0.5 | 1.7 | 1.1 | 0.4 | 0.4 | 6.3 | 1.7 |

Source: Employment And Development Of Small Enterprises
DFC Financial Statements

Table 9

KNOWN DFC LOANS IN ARREARS

| Country | Bank | Year | Total DFC Portfolio (US $000) | Lines of Credit | Portfolio by Lines of Credit (US $000) | No. of Loans | Portfolio In Arrears (US $000) | No. of Loans in Arrears | % of DFC Portfolio Value in Arrears | % of Portfolio by Lines of Credit Value in Arrears | % of Total Value of Loan in Arrears |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Grenada | AIDC | 1974 | 897.4 | Total | 897.4 | 728 | 288.4 | 349 | 32% | 32% | 48% |
| St. Kitts | DFC | 1975 | 151.5 | Total | 151.5 | 25 | 93.0 | 13 | 61% | 61% | 52% |
| Montserrat | DF&MC | 1977 | 143. | FIC&SIC | 92.6 | 28 | 92.6 | 28 | 65% | 100% | 100% |
| Dominica | NCDB | 1977 | 436 | FIC&SIC | 336.4 | 193 | 245.4 | 110 | 56% | 63% | 58% |
| Belize | DFC | 1977 | 4,013 | AIC&SIC | 698.5 | 102 | 474.0 | 32 | 12% | 47% | 43% |
| St. Lucia | 2DFCs | 1977 | 983. | FIC | 396.0 | 97 | 237.6 | 50 | 24% | | |
| St. Vincent | 2DFCs | 1977 | 622 | Partial | NA | 75 | 545.6 | 61 | 88% | | |
| Antigua | NA | NA | NA | SIC | 92 | 8 | 48 | 2 | | NA | NA |

Note: Data not complete

Source: Caribbean Development Bank

## III VIABILITY REQUIREMENTS

### 1. General Constraints and Recommendations

Unlike commercial banks, which are limited in their long-term lending abilities by the fact that they borrow short, the DFCs borrow at longer terms than they lend. They borrow at fixed interest rates and are able to feel relatively secure in their expenditure and income projections. Thus, they are spared the necessity of sophisticated financial management. Further, the extended Lines of Credit available to the DFCs reduces their need for high degrees of capitalization. In the case of the DFCs of Belize and the East Caribbean Common Market, the provision of subvention is a form of restricted capital, providing reserves, but not income-generating.

The crucial requirement in the achievement of viability is the attainment of a high degree of sophistication and accuracy in loan appraisal. Given the present competency of the system as a whole in respect to loan appraisal performance, the dissolution of the DFCs is inevitable, and the time of their demise will be determined only by the patience of their creditors.

Of almost equal importance is the ability of the small business community to respond to the availability of credit. The DFCs have been faulted, probably unjustly, for their slow portfolio acquisition. They have been forced to provide assistance to would-be borrowers, to assist with loan applications, and to continue with assistance to the borrower during and after disbursements of funds. The rendering of such assistance places undue strain on the management and resources of the institutions. Perhaps of greater concern is that a system has been established in which the loan appraisal function has been overcome by a loan facilitating function. The advantage of critical dialogue between appraiser and applicant is lost when the appraiser becomes an ally of the applicant.

Nevertheless, it is clear that small enterprise loan applicants need assistance. This should be provided by governmental agencies charged with concern for agriculture, industry, commerce etc., whose role would be the creation of appropriate economic ambience and improvement of enterprise.

In the viability analysis which follows, it is assumed that the following recommendations will be undertaken to strengthen the DFCs and to provide support to their potential clients.

(1) That all non-banking functions be removed from the DFCs;
(2) That DFC staffs be culled, and those retained be given intensive training in:
   (a) Loan appraisal
   (b) Collateral appraisal
   (c) Management systems
(3) That fixed government subventions be forthcoming at the beginning of each fiscal year;
(4) That present ceiling on DFC loans be removed, along with net worth criterion for sub-lending.

(a) Two Viability Models

For purposes of viability determination, two model minimum size DFCs are postulated, which, relieved of all non-banking functions, would be comprised of only three officers: a manager, loan officer, and operations officer; and a secretary/bookkeeper. Manned by fully trained professionals, such a staff could process between ten and sixteen loans per month. The model DFCs, postulated on this basis, and with staff paid at competitive salary rates, would have an annual salary bill of US $43,000. Assuming depreciation costs of $3,000, andoperational costs of $ 10,000, a total annual expenditure of $56,000 would be required to cover all costs, except the cost of money.

The viability of such an establishment would require the attainment of a portfolio level sufficient to generate a net return, after provision for bad debts, at least equal to total expenditures.

Two viability models of a DFC incurring annual administrative costs of $56,000 are set out below. The first assumes a 4% spread and the second, a 6% spread. Both assume that a bad debt reserve of 14% of portfolio will be able to be maintained from earnings at the point of viability. The models assume no equity, but treat only of sub-loans financed by SIC, AIF and FIC sources. The models illustrate the portfolio requirements for viability, and provide a guide to equity and subvention requirements. Subsequently, each DFC will be examined in light of the models, and in light of factors peculiar to each.

In Model One, which assumes a 4% spread, a portfolio minimum of US $2,500,000 would be required to reach viability and to maintain it. Bad debt reserves are expected to be built by a subvention of US $56,000 per year for six years, after which the reserves will be maintained from earnings. The models do not assume use of bad debt reserves during the first six years, and therefore earnings from investment of reserves are somewhat overstated. The grace period for repayment of a loan to the CDB is considered sufficient to permit re-investment of sub-loan repayments in quantities sufficient to offset draw-downs on bad debt reserves.

The greatest accumulative deficit during the seven year period occurs at the end of the third year when it reaches approximately 65,000. Should the DFC have equity somewhat in excess of that amount, say US $75,000, the deficit itself would be reduced and the DFC could absorb it, rebuilding its equity base during the ensuing three years.

Model Two assumes a 6% spread, thus precluding concessionary sub-lending. Under this assumption, the DFC would reach viability at a portfolio level of US $2.0 million. Subvention of $56,000 would be required for four years and the highest deficit level of US $50,560 would be reached at the end of the second year.

Under the first assumption, the ten DFCs would have to generate a portfolio level of US $28.0 million; under the second, US $20.0 million. Present portfolio level of the DFCs is US $7.7 million.

(b) Portfolio Requirement for Viability

Potential Markets estimates for individual States reveal that only Belize, St. Lucia, Grenada, and Antigua, could generate portfolio sufficiently large to be considered candidates for viability under Model 1. However, the continuation of two DFCs in St. Lucia would render both non-viable.

The market for fixed capital lending in the DFCs is based upon estimates derived from the ratio of the total number of enterprises in Belize to portfolio holdings of the Belize DFC. Application of that ratio 1/2590, applied to the other LDCs, yields the following market estimates:

| | | |
|---|---|---|
| St. Lucia | - | US $3.7 mn. |
| Montserrat | - | 0.4 mn. |
| St. Kitts | - | 1.0 mn. |
| Dominica | - | 2.6 mn. |
| St. Vincent | - | 2.0 mn. |
| Grenada | - | 2.8 mn. |
| Antigua | - | 3.5 mn. |

Together with Belize at US $4.0 million, the total estimates derived would be approximately US $20.0 million.

Under the second assumption, Belize, St. Lucia, Dominica, Grenada, and Antigua, could hope for viability, and St. Vincent would be a marginal case if two DFCs were merged. Thus, Montserrat and St. Kitts are, under these market assumptions, probably non-viable as independent financial institutions.

(c) Administrative Cost Requirements For Viability

Model One shows an administrative annual average cost of US $56,000. In year one, the cost of lending, as a percentage of portfolio, would be 14%; at the seventh year it would be reduced to 2%.

Under Model Two, the percentage would change from 14% in the first year, to 2.8% in the fifth year. The ten DFCs are currently expending US $1,020,000 to service a portfolio of US $7.8 million; or about 13.1% of portfolio value. Industrial DFCs show the following portfolio/administrative cost relationships:

DFC ADMINISTRATIVE COSTS, 1977
(Currency Figures In US $'000s)

| Agency | Value Portfolio | Number of Employees | Salaries | Total Administrative Costs | % Admin. Costs to Portfolio |
|---|---|---|---|---|---|
| Antigua | 769 | 10 | 28 | 99 | 12.9 |
| Dominica | 436 | 18 | 26 | 40 | 9.2 |
| Grenada | 411 | 12 | 23 | 87 | 21.2 |
| Montserrat | 413 | 26 | 65 | 93 | 22.5 |
| St. Kitts | 369 | 6 | 12 | 80 | 21.6 |
| St. Lucia (1) | 798 | 11 | 25 | 135 | 16.8 |
| St. Lucia (2) | 185 | 12 | 34 | 90 | 48.6 |
| St. Vincent (1) | 114 | 4 | 17 | 40 | 35.1 |
| St. Vincent (2) | 508 | 9 | 18 | 45 | 8.9 |
| Belize (2) | 4,103 | 47 | 116 | 311 | 7.6 |
| | 7,773 | 145 | 364 | 1,020 | 13.1 |

After more than five years of operation, the percentage of Administrative Costs in the Montserrat DFC, and in one each on St. Lucia and St. Vincent, far exceeds percentages projected for the first year of operation in both Models. In the case of one DFC in St. Lucia, and one in St. Vincent, the high percentages occur despite a level of administrative costs far below that postulated in the Model. Continuation of these relative costs completely preclude viability.

None of the DFCs approach the 2.8% percentage of administrative cost to portfolio value postulated for the fifth year in Model

Two. See Table 8 for a comparison of ECCM administrative costs with those of DFC's in Asis and Latin America.

LOAN DELINQUENCIES AND RESERVE REQUIREMENTS

Bad debts limits in both Models are assumed to be no more than 14% of total portfolio, and reserves are to be built up proportionately to portfolio holdings until these stabilize at some plateau.

The reported Loan Delinquencies for each DFC are as follows:

| Agency | Value Portfolio | Overdue Repayments Delinquencies | % Delinquencies to Portfolio |
|---|---|---|---|
| Antigua | 769 | N/A | N/A |
| Dominica | 436 | 53 | 12 |
| Grenada | 411 | N/A | N/A |
| Montserrat | 143 | 25 | 17 |
| St. Kitts | 364 | 62 | 17 |
| St. Lucia (1) (AIB) | 798 | 40 | 5 |
| St. Lucia (2) (NCD) | 185 | 7 | 5 |
| St. Vincent (1) (ACBD) | 114 | 17 | 15 |
| St. Vincent (2) (DC) | 508 | 74 | 15 |
| Belize | 4,013 | 79 | 2 |
| | 7,773 | 391 | 6% |

The total of US $391 in loan delinquencies refers only to overdue payments. The value of known loans in arrears totals approximately US $2.0 million or 29% the total portfolios of the DFC's.

## 2. Viability Possibilities for Specific LDC's

It is clear from the foregoing performance data, that all the DFCs are presently vulnerable, and some without reasonable hope of being viable under any foreseeable circumstances. In every case, administrative costs alone would absorb the highest spread rates obtainable under SIC lending restrictions, and they would still be in a deficit position. In two instances at least, St. Kitts and Montserrat, market possibilities limit the attainment of portfolios sufficiently large to permit standard effective operation as independent entities. For example, Montserrat could, at optimum market performances, produce only about US $400,000 in sub-loans, vis-a-vis its present level of US $143,000. At a 6% spread, that DFC could produce net returns of only$24,000 -- hardly sufficient to maintain staff and plant, let alone provide for bad debts, which currently total US $28,000 and involve loans with a value of $92.6 thousand. Similarly, St. Kitts, which would attain a portfolio of sub-loans of about US $1.0 million vis-a-vis present holdings of US $369,000, has little possibility of generating sufficient income to offset its operating costs plus providing for the more than $168,000 in troubled loans.

It would seem prudent to place Montserrat DFC in some form of receiver-ship, suspend all new lending operations, and effect a transfer of the SIC, FIC, and AIC function to commercial banks. The extension of lending functions for Montserrat offers little possibility for increase in portfolio. The three commercial banks on that island have been able to generate only US $4.1 million in total loan portfolios. St. Kitts, however, has some maneuvering room for increasing its market.

The other DFCs might achieve viability were they not burdened by a high ratio of bad debt probabilities which would require years to work out of. With the exception of Belize, and possibly St. Lucia, Antigua, and Grenada, it is doubtful that their viability as independent DFCs can be attained. The positions of individual DFCs, and the strategies available to them, are discussed below:

Belize: The Belize DFC is a "mature" institution; that is, it has accumulated a portfolio large enough to meet all administrative costs postulated by both Models. However, it has, in the process of growth, accumulated a staff of 47 persons with an annual wage bill of US $116,000, and annual total administrative outlays are currently at US $211,000.

It is probable that those startlingly high numbers of employees are attributable in part to Technical Assistance Cadres working with small enterprises, in part to participation in other non-banking functions, and in part to the relatively large area served, which may necessitate the employment of extensive field staff. Nevertheless, a financial burden of that magnitude is the main determinant of its present marginality.

The "troublesome" loans on its books, which are approximately US $ 531,000, pose a threat of considerable dimension. The US$ 79,000 in arrears on principal and US $ 174,000 in interest are being offset in part by Government subvention and investment earnings on grant funds supplied by CIDA. Given maintenance of the present relative cost of lending by the Belize DFC, the institution will incur higher losses with successive increases in the portfolio.

Adaptation of the following suggestions would contribute to the attainment of viability and maintenance of orderly and rational growth.

(a) Reduction of administrative costs by at least 50%. This would reduce the cost of administration from 7.67 to 2.6% of portfolio, and provide approximately US $ 105,000 to build up badly needed reserves.

(b) Immediate initiation of assessment of these loans presently in arrears, and determination whether these are salvageable and the effect which the degree of salvageability would have on the position of the DFC; then institution of collection procedures.

(c) In the process of staff reduction, the institution of a personnel system with specific job descriptions, the selection and retention of the best persons, and the setting of new and higher wage rates and the setting up of training for these.

Should the need to serve widespread areas necessitate the maintenance of extensive staff, the DFC might consider connecting itself to a commercial bank. Thus, it could utilize an extensive network to provide a wider range of services, and strongly improve its financial position.

Commercial bank portfolios in Belize for Industry and Agriculture have been growing at the rate of over $3.5 million per year, and are presently at US $ 38.1 million. The portfolios for Distributive Trades now top US $ 36.4 million. Similarly, total deposits of commercial banks have grown over US $ 3 million per year and now exceed US $ 6.0 million. The entry of a new commercial bank with a development focus would hardly cause undue injury to existing institutions, and would have the advantage of tapping local funds for development purposes.

St. Lucia:

The two DFCs in St. Lucia, the AIB and DB, together have portfolio holdings of US $983,000 and annual administrative costs of US $144,000. About US $47,000 of sub-loan principal is in arrears on sub-loans totalling US $376,000. The two DFCs registered net losses of US $182,000 on operation in 1976, and in subsequent years the situation has further deteriorated. Because of the poor record of the institutions, it has been proposed to amalgamate the two institutions with the Housing Development Bank. Enabling legislation is currently under consideration.

St. Lucian authorities have expressed the desire to form a National Commercial Bank. The proposed merger of the three institutions presents the opportunities to do so. Each of the agencies being merged could provide the staffing of "windows", with new general management introduced to supervise all functions. The new institution should be chartered under the Companies Act, and thus be totally independent of the Government, even if the Government holds stock in the new institution.

It is doubtful if the new institution could acquire public confidence, saddled as it would be with the burdensome debt of the merger partners. The general view of the merging partners as "hand-out agencies" further handicaps the acquisition of confidence. This problem can be eliminated by isolating "troublesome debts" and transferring these to a government account. The institution would thus start up with a solid portfolio, and divorce itself from past lending practices. The Government, in accepting the portfolio of "troublesome debts", would do so in lieu of, or as a partial, subvention.

Commercial bank portfolios for Agriculture, Industry and the Distributive Trades have grown from US $6.3 million to US $14.9 million over the past five years, and deposits have been up from US $19.9 million to US $37.9 million. The new institution's participation in continued commercial bank growth would underpin its development role.

Other than bad debt concerns, administrative cost levels are the greatest drag on the DFCs. With operational functions shared under the proposed merger, it should be possible to reduce loan officer staff to no more than four persons; two each for Agriculture and Industry. Given present salary levels which average about US $2,500 for both agencies, it should be possible to reduce direct operating costs to less than US $50,000, while permitting substantial salary increases to retained personnel. Such reductions would enable the combined agencies to break even at present portfolio levels.

<u>Antigua:</u> The Antigua DFC, with a sub-loan portfolio of US $769,000, a staff of ten employees, and expenses approximating US $61,000 in administration; returned a deficit of US $23.4 thousand on operations

in 1976; and loans totalling about $200,000 1/ are in arrears.

Administrative costs are the major impediment to improvement of the financial position of the agency. Exposure on troublesome debts further weakens the outlook for the DFC.

Assuming a potential market of US $3.5 million, it could achieve viability. However, the present pace toward attainment of that market level is such that the administration cost burden will severely impair achievement of viability under the assumption of either Model. These costs would have to be reduced by about 50% to permit the DFC to break even, before provision for bad debts. Unfortunately, exposure is now about 26% of the entire sub-loan portfolio. The viability of the institution would depend upon the salvageability of such loans.

It would appear that the Antigua DFC would at least be marginally viable over the next four or five years, if both administrative costs and troublesome loan efforts can be contained. However, the chances for self-financing of the operations would be greatly improved if it could be integrated into the Antigua and Barbuda National Commercial Bank.

Dominica: The Dominica DFC (DAID) has recently been taken over as a subsidiary of the National Commercial & Development Bank. It remains, however, a separate entity and does not fully share overheads with its parent. Its sub-loan portfolio is US $436,000; administrative costs are US $40,000; principal in arrears totals US $35.7 thousand; loans valued at US $336,000 are exposed; and it registered an operating loss of US $13,000 in 1977. Assuming a market potential of US $2.6 million, the DFC would be marginally viable as an independent entity. As an integrated unit of the NCDB, its chances of viability are substantially increased.

Should the NCDB continue the process of integration, substantial savings in administrative costs are possible. Of perhaps greater importance is the possibility of utilizing NCDB funds as a counterpart to FIC, SIC and AIC funds supplied by the CDB. The greater spread available through use of those funds, would make notable positive changes in the earnings of the DAID.

The new management of the DAID is of good quality, and the effects are evident from loan approvals, which grew from an annual average of twelve per year to ninety per year, in 1976. The staff is

1/ Estimates of CDB.

presently processing about sixty applications per month, with an approval rate of about 28%; about 50% are returned for further information and background material. The management credits Technical Assistance provided by the CDB for accelerating the administrative improvement which has taken place.

Grenada: Grenada has a sub-loan portfolio of US $411,000; an administrative overhead of US $34,000; a bad debt exposure of US $288,000; and registered a $4,000 loss in its 1977 operations.

The agency is, for practical purposes, moribund, and awaits high level discussions which will determine its future.

St. Vincent: The two DFCs together have sub-loans portfolios valued at US $622,000; are currently incurring administrative costs of US $71,000; have bad debt exposure of US $546,000; and registered a collective deficit of US $72,000 in 1976/1977. Recommendations for amalgamation of the two agencies have been agreed upon in principal. These, if carried out, would permit a large reduction in administrative overhead. Nevertheless, it is doubtful that such strengthening of the institutions would be sufficient for the attainment of viability. As in other cases, the pace of lending is unlikely to be sufficient for generation of income adequate to permit provision for bad debts. An extended period of constant deficits would be foreseen.

It is suggested, therefore, that the amalgamation process involve, also, the National Commercial Bank of St. Vincent, which has shown strong growth since its recent initiation. Absorption of a large portion of present administrative costs, and participation of the Commercial Bank in development lending through the DFC "windows", would add considerably to the profitability of sub-lending.

As in other cases, a commercial bank may absorb the DFC functions, the existence of a heavy exposure would be unacceptable. The Government could consider acceptance of the questionable debts.

St. Kitts: The St. Kitts DFC has a sub-loan portfolio of approximately US $369,000; is currently incurring administrative costs of US $22,000; has a bad debt exposure of US $22,000; and registered a deficit of US $14,000 in 1977. The market possibilities are too small to support a DFC under the assumptions of either Model. It is doubtful if administrative costs can be appreciably reduced.

Total loan portfolios of commercial banks in St. Kitts now total US $16.6 million, as compared to US $6.4 million in 1972; an average annual growth of US $1.7 million. During the period 1972-1977 total deposits grew to US $28.2 million from a low of

US $12.3; an annual average growth rate of US $2.5 million. The relatively brisk growth of commercial banking may offer the St. Kitts DFC a chance for viability, if it could participate as a commercial lender. Should this not be possible, the DFC functions would have to be absorbed by existing commercial banks.

The DFCs as Commercial Banks

Even in the case of those DFCs which have a potential market of adequate size, it is doubtful that their pace of sub-loan acquisition would be adequate for attainment of viability. The models anticipate a growth of US $400,000 annually. Over the past five years the average annual growth in sub-loans of the DFCs has been US $1.6 million, as shown in column one of the following table:

Table 10

**DFC ANNUAL INCREMENTAL LOAN GROWTH REQUIREMENTS**
(US $000s)

| DFC | Present Annual Average Growth | Permissable Working Capital Growth | Incremental Annual Growth Requirement: Fixed | Incremental Annual Growth Requirement: Working | Total Annual Growth Projected |
|---|---|---|---|---|---|
| Antigua | 154 | 154 | 46 | 46 | 400 |
| Dominica | 87 | 87 | 113 | 113 | 400 |
| Grenada | 82 | 82 | 118 | 118 | 400 |
| Montserrat | 28 | 28 | 172 | 172 | 400 |
| St. Kitts | 74 | 74 | 126 | 126 | 400 |
| St. Lucia (1) (2) | 196 | 196 | 4 | 4 | 400 |
| St. Vincent (1) (2) | 124 | 124 | 76 | 76 | 400 |
| Belize | 820 | 820 | - | - | 1,640 |
| TOTAL: | 1,565 | 1,565 | 655 | 655 | 4,440 |

As noted in the table, all DFCs other than Belize would have to increase sub-lending at completely unrealistic rates, to attain a growth rate postulated in the Models.

The foregoing table explores the effects of permitting DFCs, as presently constituted, to make working capital loans for clearly defined job-generation projects, e.g. second shifts, raw material increases, etc. A fixed 1:1 ratio is assumed between fixed capital lending and working capital lending.

Should the working capital sub-lending be permitted, the system would have to emit US $2.2 million in working capital annually, an amount equal to 1.2% of present total loan portfolios of the commercial banking system, and the equivalent 14.4% of the annual growth of that portfolio. To bring total annual growth of the DFCs to the desirable average annual level of US $400,000, the entire system would have to generate US $665,000 in new fixed capital lending or an increase of 41% over the present pace of lending.

The Antigua DFC would only have to generate incremental fixed capital lending of $46,000 per year; an increase of 30%. Dominica would have to increase by US $113,000: an increase of 129%; Grenada by US $118,000: an increase of 619%; St. Kitts by US $126,000: an increase of 170%; St. Lucia by US $4,000: an increase of 2%; St. Vincent by US $76,000: an increase of 61%; and Belize would need no change in its present lending pace.

Under this dispensation, only Belize, St. Lucia, and Antigua would have possibilities of meeting annual sub-lending acquisition requirements, and thus have the option of remaining independent DFCs, albeit modified; or of seeking evolution into, or absorption by, commercial banks. The others could only hope to increase earnings to a point where their integration into, or evolution to, a commercial bank could be carried out with increased security.

It is clear that portfolio diversification is necessary for the health and survival of the DFCs.

The final recommendation is that the CDB explore the possibility of making funds available for working capital sub-lending, and tie such provisions to a scheduled and monitored improvement in overall performance of the DFCs in their present roles. Should the DFCs opt for evolution into commercial banking, this should be similarly monitored, controlled, and assisted by the CDB.

Table 11

VIABILITY - MODEL 1

| Years | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|
| Sub-loans | 400,000 | 800,000 | 1,200,000 | 1,600,000 | 2,000,000 | 2,400,000 | 2,800,000 |
| Return at 4% Spread | 8,000 | 24,000 | 40,000 | 56,000 | 720,000 | 80,000 | 1,121,000 |
| Return on investment of reserve @ 8% | 4,480 | 8,960 | 13,440 | 17,920 | 22,400 | 26,880 | 31,390 |
| Expenditure | | | | | | | |
| Operations | 56,000 | 56,000 | 56,000 | 56,000 | 56,000 | 56,000 | 56,000 |
| Reserves | 56,000 | 56,000 | 56,000 | 56,000 | 56,000 | 56,000 | 56,000 |
| Cumulative Reserves | 56,000 | 112,000 | 168,000 | 224,000 | 280,000 | 336,000 | 392,000 |
| Subventions | 56,000 | 56,000 | 56,000 | 56,000 | 56,000 | 56,000 | --- |
| Net annual position | -(43,520) | -(23,040) | ( 2,560) | 17,920 | 38,400 | 50,800 | 31,390 |
| Net cumulative position | -(43,520) | -(66,560) | (69,120) | (51,200) | (12,800) | 38,080 | 69,477 |

Table 12

VIABILITY - MODEL 2

| Years | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Sub-loans | 400,000 | 800,000 | 1,200,000 | 1,600,000 | 2,000,000 |
| Return at 6% Spread | 12,000 | 36,000 | 60,000 | 84,000 | 108,000 |
| Return on investment of reserves @ 8% | 4,480 | 8,960 | 13,440 | 17,920 | 22,400 |
| **Expenditure** | | | | | |
| Operations | 56,000 | 56,000 | 56,000 | 56,000 | 56,000 |
| Reserves | 56,000 | 56,000 | 56,000 | 56,000 | 56,000 |
| Cumulative Reserves | 56,000 | 112,000 | 168,000 | 224,000 | 280,000 |
| Subventions | 56,000 | 56,000 | 56,000 | 56,000 | --- |
| Net Annual Position | (39,520) | (11,040) | 17,440 | 44,080 | 18,400 |
| Net cumulative position | (39,520) | (50,560) | (33,120) | 10,960 | 29,360 |

Table 13

LDC COMMERCIAL BANK
PORTFOLIOS
year end 1972
(US $000s)

| Country | Invest-ment | % of Long Term Loans To Total Loans | Agri-culture | Manu-facturing | Distribu-tive Trade | Tourism | Building & Construction | Other | Total Loans |
|---|---|---|---|---|---|---|---|---|---|
| Antigua | 2,144 | 45. % | 341 | 2,188 | 2,827 | 3,506 | 2,013 | 9,913 | 20,788 |
| Dominica | 659 | 24.5% | 1,263 | 493 | 2,448 | 978 | 563 | 2,631 | 8,376 |
| Grenada | 1,016 | 39.4% | 1,123 | 1,002 | 6,101 | 1,824 | 981 | 8,458 | 19,490 |
| Montserrat | - | 51.8% | 47 | 63 | 394 | 162 | 218 | 1,960 | 2,844 |
| St. Kitts | 791 | 39.3% | 596 | 260 | 1,277 | 592 | 768 | 2,864 | 6,357 |
| St. Lucia | 927 | 23.2% | 1,920 | 867 | 3,476 | 1,371 | 3,457 | 7,960 | 19,051 |
| St. Vincent | 348 | 14.1% | 926 | 206 | 2,273 | 793 | 774 | 3,907 | 8,879 |
| Belize | 96 | NA | 9,444 | 765 | 5,615 | 718 | 1,239 | 5,546 | 23,327 |
| TOTAL | 5,885 | NA | 15,660 | 5,844 | 24,411 | 9,944 | 10,013 | 37,694 | 109,112 |

Source: East Caribbean Currency Authority, Commercial Banking Statistics, Research Department, Period Ended March ,1978.
Belize Abstract of Statistics 1973-1974, Central Planning Unit, Belmopan, 1976.

Table 14

PORTFOLIO OF
LDC COMMERCIAL BANKS
1978
(US $000s)

| Country | Invest ment | % of Long Term Loans To Total Loans | Agri-culture | Manu-facturing | Distribu-tive Trade | Tourism | Building & Construction | Other | Total Loans |
|---|---|---|---|---|---|---|---|---|---|
| Antigua | 3,531 | 34.2% | 560 | 5,135 | 6,153 | 2,558 | 2,097 | 19,258 | 35,771 |
| Dominica | 3,310 | 37.1% | 1,254 | 1,042 | 2,643 | 1,080 | 426 | 7,225 | 13,670 |
| Grenada | 1,569 | 33.5% | 1,504 | 594 | 6,664 | 1,615 | 1,336 | 10,026 | 21,739 |
| Montserrat | 1,370 | 47.7% | 142 | 156 | 937 | 354 | 1,103 | 1,412 | 4,104 |
| St. Kitts | 4,251 | 39.5% | 1,060 | 1,326 | 2,878 | 1,058 | 1,500 | 8,796 | 16,618 |
| St. Lucia | 2,170 | 35. % | 2,267 | 5,822 | 6,760 | 2,926 | 3,100 | 20,144 | 41,019 |
| St. Vincent | 4,373 | 29.3% | 764 | 2,076 | 2,867 | 604 | 1,201 | 10,479 | 17,991 |
| Belize | 1,857 | NA | 11,725 | 2,727 | 7,502 | 316 | 2,933 | 9,602 | 34,805 |
| TOTAL | 22,431 | NA | 19,276 | 18,880 | 36,404 | 10,511 | 13,696 | 86,942 | 185,717 |

Source: Eastern Caribbean Currency Authority; Commercial Bank Statistics, Research Department Period Ending March 1978.
The Monetary Authority of Belize, Research Division, Quarterly Review, December 1977. Vol. 1, No. 4
Document: Banking Statistics-Belize, Planning Unit, May, 1976.

Table 15

COMPOSITION OF
COMMERCIAL BANK
LIABILITIES IN THE LDCs
Year end 1972
(US $000s)

| Country | Demand Deposits | Time Deposits | Savings Deposits | Total Deposits | Local Borrowings | Foreign Borrowings | Other Liabilities | Total Liabilities |
|---|---|---|---|---|---|---|---|---|
| Antigua | 3,164 | 7,317 | 9,420 | 19,901 | 313 | 5,917 | 2,654 | 28,785 |
| Dominica | 1,147 | 1,929 | 6,951 | 10,027 | - | 703 | 1,178 | 11,908 |
| Grenada | 2,496 | 5,777 | 9,876 | 18,149 | 443 | 4,801 | 1,764 | 25,157 |
| Montserrat | 854 | 1,559 | 3,100 | 5,513 | 741 | 455 | 183 | 6,892 |
| St. Kitts | 1,863 | 2,649 | 7,816 | 12,328 | 27 | 860 | 734 | 13,949 |
| St. Lucia | 2,685 | 7,559 | 9,650 | 19,894 | 730 | 1,899 | 1,286 | 23,809 |
| St. Vincent | 1,665 | 3,048 | 7,325 | 12,038 | - | 598 | 441 | 13,077 |
| Belize | 4,392 | 6,704 | 7,103 | 18,199 | 294 | 7,851 | 2,801 | 29,144 |
| TOTAL | 13,874 | 29,838 | 54,138 | 97,850 | 2,254 | 15,233 | 8,240 | 152,721 |

Source: East Caribbean Currency Authority, Commercial Banking Statistics, Research Department, Period Ending March, 1978.
The Monetary Authority of Belize, Research Division, Quarterly Review, December 1977. Vol. 1, No. 4.

Table 16

COMPOSITION OF COMMERCIAL BANK LIABILITIES IN THE LDCs
Year End 1977
(US $000s)

| Country | Demand Deposits | Time Deposits | Savings Deposits | Total Deposits | Local Borrowings | Foreign Borrowings | Other Liabilities | Total Liabilities |
|---|---|---|---|---|---|---|---|---|
| Antigua | 8,356 | 12,509 | 16,570 | 37,435 | 2,570 | 4,369 | 4,166 | 48,541 |
| Dominica | 2,911 | 4,404 | 11,317 | 18,633 | 987 | 817 | 4,761 | 25,197 |
| Grenada | 5,104 | 10,563 | 15,314 | 30,980 | 3,300 | 903 | 5,109 | 40,292 |
| Montserrat | 1,465 | 1,055 | 5,923 | 8,443 | 400 | 558 | 489 | 9,889 |
| St. Kitts | 2,776 | 8,241 | 17,203 | 28,220 | 1,215 | 1,519 | 5,340 | 36,293 |
| St. Lucia | 7,323 | 12,610 | 17,934 | 37,867 | 2,441 | 3,266 | 9,216 | 52,791 |
| St. Vincent | 3,984 | 8,428 | 13,278 | 25,689 | 1,305 | 2,134 | 1,629 | 30,757 |
| Belize | 7,695 | 15,119 | 13,606 | 36,420 | 733 | 8,309 | 7,045 | 52,507 |
| TOTAL | 39,614 | 72,929 | 111,145 | 223,687 | 12,951 | 21,875 | 37,755 | 296,267 |

Source: East Caribbean Currency Authority, Commercial Banking Statistics Research Department, Period Ending March, 1978.
Quarterly Review, The Monetary Authority of Belize, Research Division, December 1977. Vol. 1, No. 4.

Table 17

LDC COMMERCIAL BANK
LIABILITY CHANGES
1972 - 1978
(US $000s)

| Year | Demand Deposits | Time Deposits | Savings Deposits | Total Deposits | Local Borrowings | Foreign Borrowings | Other Liabilities | Total Liabilities |
|---|---|---|---|---|---|---|---|---|
| 1972 | 18,266 | 36,542 | 61,241 | 16,049 | 2,548 | 23,084 | 11,041 | 152,721 |
| 1978 | 39,614 | 72,929 | 111,145 | 223,687 | 12,638 | 21,875 | 37,755 | 297,126 |
| No change | 21,384 | 36,387 | 49,904 | 107,638 | 10,090 | (1,209) | 26,714 | 114,405 |
| % Change | 117% | 100% | 81% | 93% | 369% | -5% | 242% | 95% |

Source: East Caribbean Currency Authority, Commercial Banking Statistics, Research Department, Period Ending March, 1978.
The Monitary Authority of Belize, Quarterly Review, Research Division, December, 1977, Vol. 1, No. 4.
Belize Abstract of Statistics, 1973-1974, Central Planning Unit, Belmopan, 1976.

Table 18

LDC COMMERCIAL BANK
CHANGES IN TOTAL DEPOSITS
1972 - 1977
(US $000s)

| Country | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | Growth Amount | Growth Rate |
|---|---|---|---|---|---|---|---|---|
| Antigua | 19,900 | 23,739 | 33,110 | 36,277 | 39,767 | 37,435 | 17,535 | 88% |
| Dominica | 10,026 | 10,870 | 12,507 | 15,179 | 16,766 | 18,633 | 8,607 | 86% |
| Grenada | 18,149 | 19,251 | 18,834 | 24,784 | 28,497 | 30,980 | 12,831 | 71% |
| Montserrat | 5,513 | 6,011 | 6,746 | 7,890 | 8,866 | 8,443 | 2,930 | 53% |
| St. Kitts | 12,324 | 12,949 | 15,644 | 18,614 | 24,081 | 28,220 | 15,896 | 129% |
| St. Lucia | 19,894 | 22,625 | 26,646 | 31,640 | 36,569 | 37,867 | 17,973 | 90% |
| St. Vincent | 12,038 | 13,261 | 15,103 | 18,679 | 22,841 | 25,689 | 13,651 | 113% |
| Belize | * | * | * | 29,404 | 33,525 | 36,420 | 7,016 | 24% |
| TOTAL | 97,844 | 108,706 | 128,590 | 182,467 | 210,913 | 223,687 | 41,220 | 23% |

* Not Available, but total incl. Belize.

Source: Eastern Caribbean Currency Authority, Commercial Bank Statistics, Research Department - Period Ending March, 1978.
The Monetary Authority of Belize, Research Division, Quarterly Review, December, 1977 - Vol. 1, No. 4.
Document: Banking Statistics - Belize. Planning Unit May, 1976.

Table 19

LDC COMMERCIAL BANK
CONSOLIDATED PORTFOLIO CHANGES
1972 - 1978
(US $000s)

| Year | Investments | Agriculture | Manufacturing | Distributive Trade | Tourism | Bldg. & Construction | Other | Total |
|---|---|---|---|---|---|---|---|---|
| 1972 | 5,885 | 15,660 | 5,844 | 24,411 | 9,944 | 10,013 | 37,694 | 109,112 |
| 1978 | 22,431 | 19,276 | 18,880 | 36,404 | 10,511 | 13,696 | 86,942 | 185,717 |
| Net Change | 16,546 | 3,616 | 13,036 | 11,993 | 567 | 3,683 | 49,248 | 76,605 |
| % Change | 281% | 23% | 223% | 49% | 6% | 37% | 131% | 70% |

Source: East Caribbean Currency Authority; Commercial Banking Statistics.
Research Department; Period Ended March, 1978.
Belize Abstract of Statistics; 1973 - 1974, Central Planning Unit, Belmopan, 1976.

Table 20

**INDUSTRIAL LENDING BY LDC COMMERCIAL BANKS**
**1972 - 1978**
**(US $000s)**

| Country | Year 1972 | Year 1973 | Year 1974 | Year 1975 | Year 1976 | Year 1977 | Growth 1972-78 Amount | Rate |
|---|---|---|---|---|---|---|---|---|
| Antigua | 2,188 | 2,707 | 1,698 | 1,957 | 4,153 | 3,197 | 1,009 | 46% |
| Dominica | 493 | 472 | 495 | 659 | 876 | 937 | 440 | 90% |
| Grenada | 1,002 | 869 | 952 | 802 | 596 | 703 | (299) | (30%) |
| Montserrat | 63 | 53 | 98 | 132 | 142 | 153 | 90 | 143% |
| St. Kitts | 260 | 207 | 144 | 279 | 509 | 1,202 | 942 | 362% |
| St. Lucia | 867 | 621 | 731 | 3,565 | 4,693 | 5,510 | 4,643 | 536% |
| St. Vincent | 206 | 239 | 257 | 311 | 345 | 2,084 | 1,876 | 912% |
| Belize | 765 | 1,010 | 1,010 | 1,555 | 1,113 | 2,727 | 1,962 | 256% |
| TOTAL | 5,844 | 6,178 | 5,385 | 9,260 | 12,427 | 16,513 | 10,669 | 183% |

Source: Eastern Caribbean Currency Authority, Commercial Banking Statistics, Research Department - Period Ended March, 1978
The Monetary Authority of Belize, Quarterly Review, December, 1977 - Vol. 1, No. 4- Research Division.
Banking Statistics - Belize. Planning Unit - May, 1976.
Belize Abstract of Statistics, 1973-1974; Central Planning Unit, Belmopan, 1976.

Table 21

PROFILE OF OPERATING PROFIT/(LOSS)
For The DFCs In The LDCs
(US $000s)

| Country and Bank | Operating Profit (Loss) For the Year | Value of Government Subvention | Profit (Loss) After Subvention |
|---|---|---|---|
| Dominica (NCDB) | (26.3)1/ | 36.3 | 10 |
| St. Vincent (DC) | (65.0)1/ | 27.8 | (37.3) |
| St. Vincent (ACB) | (17. )2/ | 11.1 | ( 5.9) |
| Montserrat (DF & MC) | (79.7)2/ | - | (79.7) |
| St. Kitts (DFC) | (16.3)1/ | 1.87 | (14.5) |
| Belize (DFC) | ( 3.1)1/ | 35.6 | 38.7 |
| Grenada (AIDC) | (46.7)1/ | 39.3 | ( 7.4) |
| St. Lucia (AIB) | (45.8)1/ | - | (45.8) |
| St. Lucia (NDC) | (173.4)1/5/ | .37 | (136.3) |
| Antigua (ABDB) | (27.1)1/ | 3.7 | (23.4) |
| | (423.0) | 192.6 | (230.4) |

Source: DFC Annual Reports

1/ 1976
2/ 1972
3/ Not including Subventions
4/ Deficit from year results in negative Reserve Fund, original value of this Fund unknown
5/ Includes extraordinary item US $196.7 loss on foreign exchange

Table 22

ESTIMATE OF LOAN MARKET IN LDCs

| Country | No. of Business Enterprises | Loan Average per Enterprise US $ (Belize 1/) | Total size of Loan Market (US $ million) | No. of DFCs By Country | Total Loan Market Available To Each DFC |
|---|---|---|---|---|---|
| Antigua | 1,351 | 2,590 | 3.5 | 1 | 3.5 |
| Belize | 1,545 | 2,590 | 4.0 | 1 | 4.0 |
| Dominica | 1,008 | 2,590 | 2.6 | 1 | 2.6 |
| Grenada | 1,097 | 2,590 | 2.8 | 1 | 2.8 |
| Montserrat | 142 | 2,590 | 3.7 | 1 | .4 |
| St. Kitts | 367 | 2,590 | 1.0 | 1 | 1.0 |
| St. Lucia | 1,438 | 2,590 | 3.7 | 2 | 1.85 |
| St. Vincent | 784 | 2,590 | 2.0 | 2 | 1.0 |

1/ This assumes that the current loan portfolio of the Belize DFC (US $4 million) is an accurate reflection of market potential available to the DFCs.

Note: Data available from individual LDC National Provident Funds, showing number of employers contributing, indicates that these figures have not varied significantly in the years since the census.

Source: 1970 Census of the Caribbean - Caribbean Development Bank

Table 23

## SIC LOAN APPROVALS
## AND DISBURSEMENTS BY CDB TO DFC's - AS OF MARCH 31, 1978
## (US $000s)

| COUNTRY | APPROVALS<br>CDB FUNDS | <br>OTHER FUNDS | <br>TOTAL | DISBURSEMENT<br>CDB FUNDS | <br>OTHER FUNDS | <br>TOTAL | DISBURSEMENTS TO APPROVALS (%) | $ VALUE SUB-LOAN APPROVALS |
|---|---|---|---|---|---|---|---|---|
| Antigua | 297.1 | 22.2 | 319.4 | 70.0 | 9.4 | 79.4 | 25% | 85.4 |
| Belize | 1,556.0 | - | 1,556.0 | 659.0 | - | 659.0 | 42% | 803.4 |
| Dominica | 288.6 | 15.4 | 304.0 | 92.8 | - | 92.8 | 31% | 94.9 |
| Grenada | 168.0 | - | 168.0 | - | - | - | - | - |
| Montserrat | 200.0 | - | 200.0 | 83.6 | - | 83.6 | 1/2% | 99 |
| St. Kitts | 102.0 | 25.5 | 127.5 | 39.0 | - | 39.0 | 31% | 38.5 |
| St. Lucia (NDC) | 200.0 | 46.5 | 246.4 | 73.6 | 3.3 | 76.9 | 31% | 96.1 |
| St. Vincent (DC) | 537 | 37.0 | 574 | 406. | - | 406 | 71% | 320 |
| TOTAL: | 3,348.7 | 146.7 | 3,495.4 | 1,424 | 12.7 | 1,456.7 | 42% | 15,373 |

Source: Caribbean Development Bank

## Table 24

### SIC SUB-LOAN APPROVALS BY CATEGORY AND SOURCE
### AS OF MARCH 31, 1978
### (US $000s)

| Category | Belize | Antigua | Dominica | Montserrat | St. Vincent | St. Kitts | St. Lucia | Grenada | Total |
|---|---|---|---|---|---|---|---|---|---|
| Manufacturing | 405.8 | 166.6 | 90.9 | 103.4 | 376.9 | 40.2 | 75.9 | - | 1,159.7 |
| Distributive Trade | - | - | - | - | - | - | - | - | - |
| Tourism | 403.4 | 31.5 | 5.9 | - | 18.1 | - | 27.8 | - | 486.7 |
| Services | 169.7 | - | - | 8.3 | 21.3 | 3.1 | 5.9 | - | 200.0 |
| Construction | 3.9 | -- | - | - | - | - | - | - | 3.9 |
| Other | - | - | - | - | - | - | - | - | - |
| Total: | 982.8 | 98.1 | 96.8 | 103.4 | 416.3 | 143.3 | 109.6 | - | 1,850.3 |
| Local Funds | 179.4 | 12.7 | 1.9 | 4.4 | 96.3 | 14.8 | 13.5 | - | 313.0 |
| CDB Funds | 803.4 | 85.4 | 94.9 | 99 | 320 | 38.5 | 96.1 | - | 1,537.3 |

Source: Caribbean Development Bank.

Table 25

**NEW EMPLOYMENT GENERATION FROM PROJECTS RECEIVING SIC LOAN APPROVALS, BY CATEGORY AS OF MARCH 31, 1978**
(no. of employees)

| Category | Belize | Antigua | Dominica | Montserrat | St. Vincent | St. Kitts | St. Lucia | Grenada | Total Funding US $000s | Cost Per Job US $000s | Total Jobs US $000s |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Manufacturing | 68 | 17 | 45 | 16 | 112 | 7 | 41 | - | 1,159.7 | 3.8 | 306 |
| Distributive Trade | - | - | - | - | - | - | - | - | - | - | - |
| Tourism | 36 | 3 | 1 | - | 4 | - | 2 | - | 486.7 | 10.6 | 46 |
| Service | 32 | - | - | - | 7 | 2 | 2 | - | 200.0 | 4.7 | 43 |
| Construction | 1 | - | - | - | - | - | - | - | 3.9 | 3.9 | 1 |
| Other | - | - | - | - | - | - | - | - | - | - | - |
| Total Jobs | 137 | 20 | 46 | 16 | 123 | 9 | 45 | - | - | - | 396 |
| Total Funding: US $000s | 982.8 | 98.1 | 96.8 | 103.4 | 416.3 | 43.3 | 109.6 | - | 1,850.3 | 4.7 | - |
| Cost/Job US $000s | 7.2 | 4.9 | 2.1 | 6.5 | 3.4 | 4.8 | 2.4 | - | - | - | - |

Note: Data from latest SIC Loans only.

Source: Caribbean Development Bank

Table 26

CDB INDUSTRIAL LOANS
APPROVALS AND DISBURSEMENTS (1971-1977)
(US $ million)

| Category | 1971 | | 1972 | | 1973 | | 1974 | | 1975 | | 1976 | | 1977 | | TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Appro | Dis | Appro | Dis. | Appro | Dis. | Appro | Dis. | Appro | Dis. | Appro | Dis. | Appro | Dis. | Appro | Dis. |
| Industrial Credit to Intermediaries | - | - | .05 | - | .17 | - | 3.30 | .16 | 4.70 | 2.03 | 1.96 | 2.88 | .42 | 5.70 | 10.6 | 10.6 |
| SIC Small Industry 1/ | .60 | - | .63 | - | .51 | .14 | .58 | .60 | .64 | 1.12 | .76 | 1.35 | .68 | 1.36 | 4.4 | 4.4 |
| Industrial Estates | .27 | - | 1.95 | - | 1.07 | .11 | .73 | .36 | .09 | 1.17 | .83 | 1.85 | 2.15 | 3.50 | 7.09 | 6.99 |
| Direct Industry | - | - | - | - | - | - | - | - | - | - | .26 | - | 3.65 | .44 | 3.91 | .44 |
| TOTAL: | .87 | | 2.63 | - | 1.75 | .25 | 4.61 | 1.16 | 5.43 | 4.32 | 3.81 | 6.08 | 6.9 | 11.02 | 26.0 | 22.3 |
| % Disbursements to Approval 2/ | 0% | | 0% | | 5% | | 13% | | 37% | | 61% | | 87% | | 87% | |

NOTES: In certain cases, totals due, not sum due to rounding.

1/ Includes sub-lending to service industries and tourism.

2/ Disbursements are compared to approvals on a cumulative basis.

Source: CDB - Annual Report and Internal Records.

# IV ADMINISTRATIVE RESOURCES

## A. CDB Loan Supervision Unit

### 1. Present State

The Loan Supervision unit, staffed by two professionals, is responsible for monitoring bank lending operations, for providing advice and recommendations to Bank management with respect to these operations, and for generating data and analysis upon which such advice is based.

A DFC officer is specifically charged with monitoring DFC affairs, recommending policy and administrative changes, and assisting the DFC's with technical and procedural matters. The present officer is highly experienced and competent. He is expected to play a major role in implementing the DFC reforms contemplated in this project.

### 2. Role in Project

The Loan Supervisor Unit will play the prime technical role in DFC restructuring. It will function as a technical resource to the DFC's and will participate with DFC personnel in re-design of DFC operations.

The T.A elements provided by AID will be assigned to the Loan Supervision Unit, and will be directed from that unit. It is expected that LSU personnel and T.A personnel will function as a team, and will be responsible for initial working level discussions with participating DFC's, for preparation of design work growing out of those discussions, and for the creation of instruments to support restructuring, e.g. training program.

Training of DFC personnel will be carried out by the Unit at CDB facilities, and the LSU will select officers from the LDC for specialized training abroad.

The unit will maintain liaison with the Industry Division and, through the Division, with other agencies involved in this project.

The unit will also be responsible for evaluation of the progress of the DFC restructuring effortt and will establish base line data for such evaluation.

B. St. Lucia DFC's

1. Present State

National Development Corporation, St. Lucia

Introduction

The National Development Corporation (NBC), St. Lucia, was established in 1971 as a statutory corporation. It functions both as a financial and executive arm of the Government, to stimulate, facilitate, and undertake the economic development of St. Lucia, particularly for promotion of designated land development areas and industrial enterprises.

The NDC was accepted by the CDB as a Financial Intermediary for channeling long-term funds for development of small businesses and industries and also for promotion of technical and professional skills among students through loan assistance.

Progress of Operations

The main thrust of its activities since inception, has been the construction of industrial sheds (86,400 sq. ft. of space), mainly with resources provided by CDB, and, to a lesser extent the development and sale of land vested in it by the Government. The grant of loans to small businesses and industries has made only marginal impact; hitherto only ten loans have been made, for $284,686, of which only $108,390 comes from CDB funds.

Management

The management of the NDC is vested in a Board of seven members appointed by the Government. The day-to-day affairs are in the charge of General Manager, who is supported by an Accountant, Small Business Advisor, and Civil Engineering Unit.

To facilitate effective control, five specialized small executive Committees with decision making powers, have been appointed. The proceedings of these Committees are placed before the Board in the form of recorded minutes, and are normally ratified.

However, a perusal of the minutes of the Board and the Committee reveals that important issues and other developments on matters affecting business are invariably reported verbally at meetings by the General Manager. consequently, the notice of meetings to members makes only a mention of the subjects to be dealt with at the meetings, instead of furnishing members with the necessary background papers for study and discussion.

Even in the case of loan proposals, the appraisal reports prepared by the Small Business Adviser are placed before the Comittee without memo's from the General Manager, giving his view on specific issues. Further, the Board and Committees are not periodically furnished with sufficient management information showing the position of the NDC's affairs. Thus, the Chief Executive Officer is not able to play a more effective role in helping members of the Committees and the Board to take an active and meaningfuld part in the deliberation and formulation of policy directions.

## Resources

1: Owned Funds
Paid-up Capital - $3,183,023

The statute does not provide for a capital structure. However, the Government's investments in shares in seven limited companies to the tune of $2.27 million, the value of 6,404 acres of land at $1 per acre, together with a cash contribution of $567,716, all vested by Government in the NDC, are shown collectively as contributed capital. The cost of a factory shed, together with development costs out of funds from the British Development Division, is also included therein.

2: Borrowed Resources - $2,863,225

| | | $ |
|---|---|---|
| a) | From CDB | 1,922,777 |
| b) | From CIDA | 490,448 |
| c) | From National Provident Fund | 350,000 |
| d) | From Chase Manhatten Bank | 100,000 |
| | | 2,863,225 |

a) Borrowing from CDB

| | $ |
|---|---|
| For construction of factory shells | 1,629,435 |
| For small industries loans | 124,996 |
| For student loans | 168,345 |
| | 1,922,777 |

Construction of industrial sheds has been its main area of activity, and repayments of borrowings will commence in the middle of 1978. As income from rent is not even sufficient to meet interest on borrowing and maintenance charges, the CDB will have to invoke the guarantee from Government to obtain repayments.

b) A credit line of CAN $970,000, extended by CIDA to the Government of St. Lucia for water supply in Vieux Fort Development area, has been passed on to NDC as Executing Agency.

The Auditors have revalued the total outstanding NDB debt in foreign currencies as of December 31, 1976, at prevailing rates of exchange and have provided for a loss of $531,097, resulting from depreciation in value of the EC$.

c) Under the Governments's directions, a sum of $350,C00 was recently borrowed from NPF at 7% per annum, for increasing its shareholding in Windward and Leeward Brewery limited.

d) Similarly. a sum of $100,000 was borrowed from Chase Manhattan Bank at commercial rates, for investing in shares of Intercontinental Distilleries Limited. This amount is expected to be recouped frcm commission on guarantee for $1 million, executed by NDC on behalf of this company to a foreign bank in connection with the company's collaboration arrangements.

<u>Liquid Assets - $25,253</u>

Poor liquidity hampers the operation, and will continue to do so. unless more money is provided by the Government. Hitherto, the excess of the Goverment's annual subvention of $200,000 over its expenses was utilized by the NDC for the development of land, etc. Now that the Government's subvention has been reduced to $100,000 from 1976, it has been forced to negotiate credit arrangements on commercial terms.

<u>Investments - $2,947,491</u>

It has no liquid investments. Its investments are mainly those made by the Government and passed on to it in shares of the seven limited companies. None of these companies declare dividends except on 50,000 shares held in the St. Lucia Cooperative Bank Limited. The auditors have estimated a depreciation of $400,000 on the book value of such investments as of the end of 1977.

<u>Land Development - $6,404</u>

The NDC has been developing portions of land for sale to the public, the purchase price being payable in installments. A sum of $255,173 is receivable on this account. To provide bridge-over finance, it has recently negotiated overdraft arrangements on commercial terms.

For land development work, a special Engineering Unit has been established, with a Field Office equipped with supporting staff.

A great deal of the time and attention of the General Manager are expanded on problems connected with land development, sale, tenancies, unauthorized squatters, etc.

Factory Shells - $2,190,419

A total of 86,400 sq. ft. of factory space has so far been built at Vieux Fort and Bisee Industrial Estates at a cost of $2.23 million, of which 30,000 sq. ft. are not occupied. However, commitments are reported to have been made for taking up that space.

A subsidised rent of $1.20 per sq. ft. per year is charged, which, together with ground rent, presently brings in an income of $70,000, as against interest on debt and maintenance charges of $118,000; showing a net loss of $48,000 every year. Even assuming the entire space is let out, the economics of rent charged will hardly permit it to break even.

An examination of accrued rent, reckoned as income, shows that approximately $30,000 would prove irrecoverable. In view of these circumstances, the NDC will not be in a position to meet the loan installments falling due to the CDB commencing May 1978.

No accounting record is kept regarding the cost of construction of each shed, its present book value, area occupied, rent collected and arrears, ets.

Sub-loans - Small Industries Credit - $284,686

| | $ |
|---|---|
| CDB Funds | 108,390 |
| Local Funds | 176,296 |

The NDC has not succeeded in finding many bankable projects for development of small scale industries. It has so far made only ten loans, six from its own funds and four loans in which CDB funds have been combined.

The appraisal reports on projects prepared by the Small Business Advisor, are placed directly before the Loans Committee, without being routed through the General Manager for his scrutiny and appropriate recommendations. Consequently, the General Manager is not involved in the approval, administration and eventual recovery of the loans.

The procedure for systematic follow-up of loan documentation and other matters connected with loan administration needs tightening up.

The NDC has not ensured, in several cases, the completion of documentation and the observance of safeguards for getting insurance coverage on assets forming collateral.

Two projects have failed, and loans outstanding of $28,900 will have to be written off. The sum of $71,445 due from another project is doubtful of recovery.

The total debts thus considered bad and doubtful of recovery form 35% of the total outstanding loans, showing substantial impairment of the loan portfolio of the NDC.

The system of recording sub-loans needs to be altered. Presently, it has no separate record to indicate the amount of loans made out of its own funds or from the CDB, nor do the individual loan accounts reflect these details.

Student Loans - $168,346

has so far approved seventy-four loans for $479,780 and disbursed $196,569. Wherever possible, mortgage of property is obtained as cover. In cases where loans are guaranteed, particulars of assets, liabilities, and income of parents and guarantors of students, have not been obtained and scrutinised. The NDC proposes to insure students, in a new student loan scheme.

Operating Results - (Loss) $723,532

An analysis of operating results on the basis of major functions performed, shows that while its profits have been marginal on industrial loans, student loans, and land development, it has incurred sizeable losses in 1976 in the administration of industrial estates. At the subsidized rental of $1.20 per sq. ft. per year, the revenue would not be enough to meet interest on debt maintenance charges, even if full occupancy is assumed at all times.

The government had provided an administrative subsidy of $200,000 per year, but this has been reduced to $100,000 from 1976, as against total administrative expenses of about $200,000 a year. An office opened by it in New York to do promotional work further adds to its already heavy expenses.

As of the end of 1976, the auditors have revalued the debt burden repayable in foreign currencies, and an exchange loss of $531,097 has been provided for. This means that, on borrowings of $2.41 million from CDB and CIDA, the loss in exchange amounts to 22% of the debt.

Staff

The General Manager, who is the Chief Executive Officer, is supported by an Accountant, a Small Business Adviser, a Student Loan Officer and an Engineering Unit consisting of an Engineer, Assistant, and one Field Office Unit.

The staff is comparatively new, so that the allocation of duties, their supervision and control, are yet to be made effective.

Books, Systems and Procedures

Though basic books, accounts, and records are satisfactorily maintained, there are areas where substantial improvements are necessary.

Loose administrative systems and procedures in the granting and follow-up of loans and other general matters need tightening up, and adequate measures of internal control need to be introduced.

Problems of Liquidity

With increasing arrears in the collection of rent from industrial estates, and because of the protracted installments of land sales, there is little scope for improvement in the NDC's liquid position. The reduction of annual subvention of Government from $200,000 to $100,000 would make it impossible for NDC to do any useful work.

Nonetheless, the Government directs the NDC to borrow funds from the NPF and commercial banks at market rates, for specific purposes of acquiring shares in companies with little prospects of return to service the debts.

Conclusion

The major, and perhaps the only, achievement of the NDC in the last five years of operation, is the construction of 86,400 sq. ft. of industrial space. It has also helped seventy-four students with loan assistance. Its performance in the field of industrial loans has been minimal, and reveals lack of business-like approach to projects. Thus, factory construction and land development have been its main thrust of activity.

The Government of St. Lucia has established also the Agricultural and Industrial Bank, which finances only the agricultural sector, although empowered to finance industries as well. Besides this the Government has set up a housing development bank, to finance construction of houses for low income groups, the houses being constructed by the Urban Development Corporation, another statutory body.

For various reasons, the CDB has accepted all the three financial institutions for channeling funds for development projects.

There is also a national bank, the St. Lucia Cooperative Bank Limited, performing commercial banking functions (private sector) in which the Government has 10% shareholding.

In view of the multiplicity of institutions performing limited functions with marginal impact and competence, it may be advisable to undertake a study as to how a structural and financial amalgamation of these institutions could best be brought about to ensure reasonable prospects of a viable institution providing a package of related services to the community at large.

## St. Lucia Housing Development Bank

### Introduction

The Housing Development Bank (HDB) is a statutory organization established under the Housing Development Act, 1972; it commenced business in 1973. The objectives and functions of the HDB are to promote the purchase, construction, improvement, alteration and repairs to housing, and to generally assist in the development of housing by encouraging the mobilization of capital for investments in housing.

The main thrust of its activity in the last four years has been the granting of medium and long-term loans to lower-middle and lower income groups, for construction of new houses, and also for making additions and renovations to existing properties, and for the acquisition of house sites.

A statement showing its financial particulars as of December 31, 1976 is attached.

### Management

The Management of the HDB is vested in a Board of seven members appointed by the Governor from Members of the Board of the Urban Development Corporation (UDC), another statutory organisation, entrusted with executive functions connected with developing land, construction of houses, etc. Thus both the HDB and the UDC represent the financial and executive arms of the Government for the specific purpose of housing development.

The line of credit approved by the CDB to the Government of St. Lucia for low-income housing, is administered by the HDB as Executing Agency; the actual housing development and construction work is undertaken by the UDC.

The day-to-day affairs of the HDB are entrusted to a General Manager, who, in addition to his duties as Chief Executive, functions exactly similar to any other financial institution.

### Resources

Owned Funds - $276,718

The Government gave a grant of $450,000 as its contribution, and this amount now stands depleted by the accumulated losses of $173,282.

Borrowings - $1,103,379

| | $ | |
|---|---|---|
| CDB | 350,218 | 7 1/4% per annum |
| Colonial Life Insurance Company | 753,161 | 10% per annum |

While the borrowings from the CDB are for financing low cost housing schemes for low-income groups, those from Colonial Life Insurance Company are specifically for granting housing loans to civil servants and employees of the City Council.

Fixed Deposits - $2,605,600

Under the HDB Act, deposits with it are not only guaranteed by Government, but the interest earned on them is free from income tax. By virtue of these attractions, it has succeeded in mobilising sizeable long-term deposits from the National Provident Fund and other institutional investors.

Loans and Mortgages - $3,775,359

In terms of its Statute, loans are granted only against mortgage of land or bill of sale on the chattels, up to 90% of the project cost, in the case of CDB funds, and 75% in the case of other funds. Eligibility for loans is determined by income criteria, while the loan amount is conditioned by value of security and the total project cost.

In the case of salaried borrowers, repayments are obtained by deductions from salary and/or through standing bank instructions.

A uniform rate of 8 1/2% interest per annum is charged n all loans.

As all the loans are fully secured, it cannot be said that the recoverability of any part of its loans has been impaired.

Operating Results

Because of the high cost of borrowed funds, at a lending rate of 8 1/2% per annum on its loans, the net income earned is insufficient to meet its annual salaries of $55,000 and another $40,000 for established expenses. Consequently, its annual operations have resulted in continuous loss, the accumulated loss being $173,282. With the current level of operating margin, there appears to be no prospect for the HDB to function in its present manner as a viable institution.

## Conclusion

The HDB is a Government institution set up specifically for the issue of loans for construction of houses. Despite the use of funds to the tune of $4 million, there appears to be no prospects for the HDB to function as a viable unit. As the executive work connected with the development of land and the construction of houses is performed by the UDC, which is another institution sponsored by the Government, the question one could ask is whether there is any need for a separate institution for St. Lucia solely for the purpose of issuing loans for houses for the middle and lower-income section of the community.

ST. LUCIA
HOUSING DEVELOPMENT BANK

Financial Particulars as of December 31, 1976

**Liabilities**

| | $ | $ |
|---|---|---|
| **Capital** | | |
| Government Grant | 450,000 | |
| Less Accumulated Loss | 173,282* | 276,718 |
| **Borrowings** | | |
| CDB | 350,218 | |
| Colonial Life Insurance Company Limited | 753,161 | 1,103,379 |
| **Fixed Deposits** | | |
| Long-term | 2,170,000 | |
| Short-term | 435,600 | 2,605,600 |
| Accounts Payable | | 191,077 |
| | | 4,176,774 |

**Assets**

| | |
|---|---|
| Cash at Bank | 77,121 |
| Fixed Deposits | 300,000 |
| Loans and Mortgages | 3,775,359 |
| Receivables | 14,773 |
| Office Equipment | 9,521 |
| | 4,176,774 |

* Includes estimated loss of $70,000 arising from revaluation of foreign currency borrowings.

## Agricultural and Industrial Development

### Bank of St. Lucia

### Management Structure

The day to day operations of the AIB are under the direct control of the Manager supported by five office staff and four field officers. Policy guidelines are unclear and management directives are non-existent. Board of Director Meetings; which according to Section 5 (1) of the Agricultural Bank Ordinance No. 19 of 1965 should be held at least once every month, are held less frequently. Between October 1975 and October 1976, only five Board Meetings were held. In addition, certain ex officio members of the Board of Directors have not turned up at any Board Meetings during the past two years. Part of the reason for the few Board Meetings held is the difficulty in obtaining a quorum, as some members of the board are extremely busy. Although there has been the addition of a Loans Officer to the staff, the Manager is still too involved in interviewing prospective borrowers, and consequently has less time for planning and other managerial functions essential for the efficient functioning of a Development Bank.

### Management Information

There is a lack of management information and statistics available on a regular basis.

Monthly statistics on the type and number of loan applications received, approved or rejected, are not regularly prepared, nor has a Loans Application Register been maintained.

### Financial Reports

A "Financial Report" is prepared by the Accountant monthly and submitted to the Manager for forwarding to the Board. This report is a statement of the total income cash receipts and administration expenditure for the month and the year to date. For management purposes, more detailed information is necessary.

### Appraisal Techniques

Loans up to $3,000 can be approved by the Manager, with loans over $3,000 having to go to the Board (the AIB is presently taking the necessary steps to increase this limit to $5,000). From an examination of a number of files it was observed that many loans are approved without a detailed breakdown of the proposed expenditure. Particularly in the case of industrial loans, very little financial analysis or feasibility study is done. One can find numerous examples of the AIB financing a project which, on the face of it, is little more than an idea which has not been properly examined.

## Security on Sub-Loans

The incidence of loans being granted with inadequate security or no security at all is rather high. This is due mainly to the lack of proper systems, particularly in relation to follow-up procedures and to the checks made before disbursement of funds. No system is used to value security and to record it. Loan guarantors do not complete a statement of assets and liabilities, nor where considered appropriate, supply bank and other references. There are many instances of funds being disbursed before all condition of the loan are satisfied.

## Disbursement Procedures

The AIB disbursement procedures are not satisfactory. Instances were observed where funds were disbursed without the hypothecary obligation being signed, and without insurance policies received and assigned. It is not surprising, therefore, that on the occasion when a defaulting borrower is followed up, it is then discovered that the AIB has not security to cover the loan. There are instances where disbursements bear no recognisable relation to the details in the appraisal report. If such occurrences are as a result of changes in the project formulation or costs, there is no indication of the changes recorded in the disbursement documents. Responsibility Loan certifying that a disbursement is in order is not evidenced. At present the practice of making payment to third parties is not always followed.

## Project Supervision and Follow Up

This important function is often neglected as can be evidenced by the number of loans in arrears. For years no action has been taken against some defaulting borrowers, while arrears of principal and interest steadily built up, necessitating a qualification in the auditors report on the 1975 accounts. Recently, however, a large number of defaulters' files have been handed over to the Attorney General and action is being taken. Follow-up regarding project implementation has also been unsatisfactory and, consequently, some problems only come to light when a borrower does not meet his debt service repayments or comes in for an additional loan.

## Use of CDB's Funds

Under the terms and conditions of the loan from CDB, its proceeds can only be used for the purpose set out in the appropriate Loan Agreement. Repayments of principal received from loans out of CDB's funds totalled $143,507 in the period 1974 - 1976. Throughout this period any loans eligible for financing out of CDB's funds were financed from new funds provided. Hence this total of $143,507 has been used up in providing finance for purposes for which it should nobe have been used.

## General Observations

Interest Charges - Under S11 of the Agricultural & Industrial Bank (Amendment) Act No. 18 of 1970, the AIB can only charge interest on the outstanding balances of principal, and no interest on arrears of interest can be charged. Thus there is no incentive for borrowers to pay off these arrears, as the longer they take to pay and the larger the amount becomes, the lower is their real rate of interest. These large arrears of interest also erode the already narrow safety margin on security taken.

Safekeeping of Borrowers' Files - Documents in relation to a loan are placed in borrowers' files and kept in the vault. All members of staff including field officers, have access to the vault and the files.

## Conclusion

As seen above, there are several areas of the AIB's operations which are unacceptable and in serious need of improvement and amendment. Alterations in the structure and attitude of the management are also necessary. All these reflect themselves in the financial results. However, there exists in the AIB a basic framework around which can be built effective systems.

## 2.7 Role in Project

St. Lucia is expected to undertake institutional reform through merger of existing Development Finance Corporations and the eventual conversion of the merged entity to a full service financial institution. Discussions have been held, in which the possibility of merging the three institutions with the St. Lucia Cooperative Bank has been explored. However, it is doubtful that the SLCB could absorb three marginal institutions without itself being subjected to severe financial strains. It has been judged appropriate to attempt, with the cooperation of their creditors, to merge the Housing Development Bank, the Agricultural and Industrial Bank of St. Lucia and the National Development Corporation (all DFC's).

The anticipated merger does not completely eliminate the option of an eventual further merge with the SLCB; however the project is predicated upon the probability of increased viability of each specialized function presently carried out by the three DFC's, if they can be carried out within one organization. Additional lending functions, e.g. working capital loans, may be required to achieve viability.

Officers of the three institutions are expected to participate in feasibility studies and in planning the merger. Working with personnel of the Loan Supervision Unit of the CDB, T.A. personnel, and an appropriate governmental representative, officials of the three institutions would participate in a number of sub-committees. The committee would be charged with specific determinations, e.g. financial implications and viability requirements, management structure, lending practices etc.

## C. National Commercial and Development Bank (AID Subsidiary) Dominica

### 1. Present State

#### Management Structure

With the enactments of the National Commercial and Development Bank of Dominica Act 1976, this institution became a subsidiary of that Bank and the previous Board of Directors was dissolved. The Board of the National Commercial and Development Bank became responsible for the running of the AID Bank subsidiary, and for the approval of loans granted. The Act also makes provision for an Advisory Committee to be appointed which should replace the old Board in some of its functions. So far this Committee has not been set up and it is unclear how it would operate.

In the past, sub-committees were appointed to consider and recommend the approval of loans to the Board, and the Manager and FIO both took an active part in the Board Meetings at which these loans were discussed. Under the present arrangement the AID Bank management has not been invited to the Board Meetings at which these loan applications are discussed. All that this Institution receives is a list of loans approved, with no mention even of the basic terms and conditions.

Close links with other institutions involved in the agricultural development of the State (such as the Ministry of Agriculture, Marketing Corporation, Lands and Surveys Department, Public Works Dept., etc.) do not exist, and as no definite government policies and guidelines are made available to the management of the bank, there is no real directive in their operations.

This institution has a present staff completment of 10 consisting of -

1) Manager
2) Farm Improvement Officer (FIO)
3) Farm Improvement Assistant (FIA)
4) Loan Administrative Officer
5) Secretary
6) Accounting Assistant
7) Office Attendant
8/9/10) Clerk/Typists

Although the appointment of an Accountant was approved by the Board in June 1976, this post has never been filled and the Manager has been quite successfully supervising the accounting functions.

The new Act also resulted in the post of Secretary to the Board becoming redundant, and at present the staff member who performed this function is idle.

## Management Information

There exists in this institution most of the information necessary for meaningful periodical management reports, which would help to guide management in its functions, including assessing to what extent it is meeting the requirements of small farmers and other borrowers. Unfortunately, these schedules and reports on such things as cash flow, income and expenditure, loan applications, approvals and disbursements, analysed by amount and purpose, etc., are not often prepared - even income and expenditure statements are only prepared yearly for audit purposes.

## OPERATIONS

### Security on Sub-Loans

In the case of practically all of the files examined (approximately 15) the security taken appears to be in order, and there is no cause for alarm. The main weakness is in the valuation of security offered. In the case of agricultural land, the valuation is done by the FIO who is perhaps as competent as anyone in Dominica to value such land. However, no specific valuation report is done and the only mention of valuation is in the appraisal report. Quite often the valuation is not as a result of a detailed study, and one is therefore left to guess on what basis the valuation is arrived at. Where non-agricultural land and buildings are offered as security, the usual practice is to obtain an independent valuation.

It was found in the case of a loan of $34,000 to the Pacquette Brothers; no valuation was done on the residential lands and buildings offered as security. In addition the security which was to be taken on the loan should have included a mortgage on the estate bought out of the proceeds of the loan. The title deeds for this land were never obtained by the bank. Accepting the insurance values of other property held as security, the coverage is adequate and loan repayments on this account are made promptly and regularly.

### Disbursement Procedures

Before funds are disbursed, the institution ensures that the relevant security has been received and requests the presentation of appropriate documentation. In one instance it was found that the

AID Bank disbursed on a loan before all legal proceedings were complete in respect for security. The explanations given by the Manager were acceptable.

In the case of agricultural loans where monies are disbursed for clearing underbush, lining, planting and felling, disbursements have to be made more often than not on the mere presentation to the FIO of wage sheets, etc., with no inspection being made to ensure the work has been properly done. This happens because the FIO and FIA are unable to visit estates and projects more regularly than every three months.

Use of CDB's Fund

This institution takes the ultra conservative approach of not only putting aside in sinking a fund, repayments received from sub-loans granted out of CDB's funds, but makeing up out of their own funds, repayments that should have been received and are in arrears.

The sinking fund investment amount is made up of the total demand figures from the last fo[illegible]ars of $259,684 although only $150,436 was in fact collected, the [illegible] of $109,248 being made up out of the institution's own funds. [illegible] other words, very little or no recycling of funds is done. It must be borne in mind that while CDB loans are for 15 to 20 years, sub-loans are for a much shorter period.

Furthermore, this amounts to borrowing funds from CDB at 4% for onlending to small farmers and industries, and investing it in securities receiving some 7% to 8% return.

GENERAL

Accounting Records

The accounting records maintained are quite adequate for CDB requirements. They are properly maintained, very closely supervised and checked by the Manager, and are relatively up-to-date. In short, there is no cause for concern in this area.

Custody of Securities

A Securities Register is maintained and title deeds and insurance certificates and other security documents are supposed to be kept either at Barclays Bank or in the bank's safe, their location being entered in the Securities Register. It was found, however, that although this practice was adhered to in the case of title deeds, several insurance certificates, mortgage deeds, guarantees and loan agreements were found to be on the general borrowers' correspondence files, which are not subjected to the same strict security precautions.

## Project Supervision and Follow-up

Project supervision and follow-up (excluding arrears) is the responsibility of the FIO and FIA in the case of FIC and AIC loans, and, in the case of SIC loans, the CDB project officer and the manager of the AID Bank. The FIO and FIA's other responsibilities include inter alia, loan appraisals and interviewing applicants. Because of work loan and the difficulty involved in travelling in Dominica, visits to projects are rarely done more often than every 3 months. In the case of agricultural loans, this is hardly adequate because, as mentioned before, disbursements have to be made on projects without visiting them to ensure that the work was in fact carried out and properly done.

A recent review of operations by a BASIC bank operations analyst produced the following observations.

## Government Subventions

The annual subvention committed figure is $66,000 for administrative deficit, but the amount varies; averaging $150,000 annually. It is used for operational deficits and poses no problem.

## Marketing

1. No Market Area Survey has been made by the DFC; they rely on project appraisals made by CDB for CDB lines.

2. Industries: They refer to industry Sector Plan 1978-1982, published by Department of Industry, Dominica, which is in a draft form at present.

3. Advertising: Radio, newspapers and brochures.

4. Sales Call Program: Field Officers, senior staff and members of the Board call -- nothing formal or defined. Write ups by field officers are made.

   Remarks: Need Study in Agricultural Sector<br>
   Need Study in Industrial Sector

Market development requires:

(1) Changes in loan restrictions;
(2) Personnel education;
(3) Increased promotional effort.

Credit Administration

1. Number of loan applications including interviews taken per month .................................... 63
   Number of approvals per month ........................ 18
   Number rejected per month ........................... 13
   Number pending ...................................... 32

2. Rate Spread: They believe they should have option of determining the rate within a ceiling and a floor, for obvious reasons.

3. Credit Interchange (information, references, etc.). This was attempted during Mr. Iyer's tenure, but nothing has come of it.

4. They do not use Letters of Credit ... disburse to third parties however.

Remarks

(1) Manager has a 5,000 Credit Line

(2) Loan Committee

This Committee has a membership of eight, is drawn from the business sector, meets only when there are sufficient loans to act on. (6 or 7). They are paid and cost is a factor; they are not members of the Board. The fee is $35.00 to $50.00 per meeting, per member. They recommend credit on all loans - do not have approval authority.

(3) The loan officers of the DFC do not have Credit authority. They "propose" in some cases, recommend in others.

(4) The general manager of the National Commercial Bank, the parent bank, is chairman of the joint Board that governs the parent bank and its subsidiary, the DFC.

(5) The Manager wants to develop a loan collections clerk, as well as delegating collections to his field officers.

Recycling

The manager does what he can and invests the rest in short-term deposits.

Agricultural Production Credit (APC)

The DFC anticipates that CDB is coming up with a new plan in mid-summer of 1978.

> 4% borrowing with 4% reserve for losses;
> 12% on-lent, thus a 4% spread;
> Relaxation of security requirements.

Budget

Long range planning is on the drawing board. Starting July, 1978, the Manager will have a monthly budget; Budget will include Balance Sheet, P & L, Volume of loans and targets. Presently the Manager has prepared, but as yet not submitted to his Board, a monthly liquidity and investment position report.

Management of Short-term Cash Balances

The Manager has authority and exercises it. Fixed and Term Deposits.

1. Very small balance at NCDB. It's indicated balances will shift to this account in time. (Term Deposit)

2. Barclay ank (Term Deposit)

   Balance of 356,000, 6/15/78. Draw interest @ 3 1/2% for thirty (30) days A/c and 6% for ninety (90) days A/cs. Checking A/c is here and Savings A/c balance $41.00.

3. Main checking A/c is with NCDB, present balance $66,000.

4. Treasury Bills -- balance $693,000.

5. Coconut Fertilizer Scheme A/c. The source is CIDA; Balance is $116,000. This is a Capital AID Grant and is carried under "other assets", agency loans on behalf of Dominica Government.

6. CDB loan installments coming due are paid from Treasury Bills or Fixed Deposits.

## Operations

1. Books are separate. NCDB and NCDB (AID Bank).

2. General Ledgers and subsidiary ledgers are s arate.

3. Four (4) subsidiary leagers consisting of customer loan A/cs broken out by type of loan.

4. Income and Expense are under General Ledger.

5. Controls: Two (2) signatures required for checks, advances and refunds. Bank vouchers used for everything except administrative expenses - These are handled by Government vouchers. Maximum 200.00 in petty cash. There is no formal internal audit - Manager spot checks entries from time to time.

6. Government pays AID salaries.

## Reserve for Bad Debts

Manager has taken issue with auditors on this score. He feels confident he will recover 40,000 of past due loans in 1978. He is spending a great deal of attention on delinquencies and has the support of his Board in this endeavor.

## Loan Application and Disbursement Procedures

... The applicant is interviewed, helped with the application and financial statement and the credit investigated.

... Application goes to a field officer:

- (a) He makes appraisal of loan request.
- (b) He values the collateral or if called for, has an independent appraisal made.
- (c) Secures necessary financial data if it has not been supplied.
- (d) Draws up cash flow.

... Application goes to manage for approval

... Manager recommends:

- (a) approval
- (b) special terms, collateral, etc.

... Goes to Loan Committee for recommendation

... Goes to Board for action

... Borrower submits collateral

... Borrower executes loan agreement with various terms and guarantees, note, etc.

... Goes to Solicitor

(a) Executes mortgage - records at registry of deeds.
(b) Registers Bill of Sale.
(c) Takes surety of guarantor in court.

... Collateral, including Bill of Sale, Insurance policy is filed in safe keeping in fire-proof vault under dual control. They have tickler file for expiration of collateral.

(None of the loan pe onnel has credit authority)

(Counter part funds, 10% and 20%, has nothing to do with the sub-borrower).

During the Grace Period when often the disbursements are made, the borrower pays monthly interest on the daily outstanding balance.

The collateral value must be 175% of loan proceeds. If collateral is machinery it must be 150%. The borrower must pay all fees - appraisal, legal, etc.

... If the loan is a SIC over $75,000, CDB must approve the loan after the Board does.

If the loan is a SIC under $75,000

(a) Preliminary work is done by AID Bank
(b) Goes to CDB project office for approval
(c) Goes to AID manager for his recommendation
(d) Goes to AID Board for their recommendation

If loan is a FIC, the FIO, on the payroll of CDB and on the AID staff, approves or recommends the loan.

(a) Then goes to the Loan Committee
(b) Then goes to the AID Board
(c) Then CDB is notified - no action required by them

All Loans

Some borrowers complain about time factor - too long.
Some borrowers complain about restrictions on how they can use the loan proceeds.

All Loans but Student Loans

They assess a penalty or late charge of 1% of monthly installment if it is three months past due.

Major Problems

1. Loan delinquencies.

2. Staffing

   (a) lack of sufficient personnel.
   (b) lack of training apprentices - manager is working on "inside" - formal training program.
   (c) expense of sending personnel away for training.

3. Rate spread

4. Capitalization - how to get this increased

   (a) Foreign Grants
   (b) Foreign Loans at soft rate

5. Identification of Market Potential (local and foreign)

   (a) Technical assistance
   (b) Would like a technician assigned to DFC for a year to train a SIC local man. Would like this aid to pay both the technician and the trainee.

6. CDB Loan Restrictions

   The Manager will mail me his outline.

Summary

The Dominica AID Bank has:

1. Capable top management with vision.

2. Government support.

3. A four year past performance of progress.

4. The benefits of close association with a Commercial Bank.

5. Physical facilities in keeping with a modern bank.

6. A comprehensive awareness of its present shortcomings and limitations.

7. A willingness and determination to abrogate those constraints that inhibit viable developmental lendings.

Given time this DFC has all the ear-marks of success. A word of caution: as important as the supporting factors of AID Bank are, the key is the present manager.

## CONCLUSIONS

The systems and procedures operating in this institution are quite adequate, and once adhered to, there should be no cause for worry in this area. The new legislation surrounding this AID Bank subsidiary is rather confusing and, due to uncertainties, its adverse effect on the management and operations of the bank can already be seen. The situation needs to be clarified, particularly relating to Board Meetings, approval of sub-loans, and the establishment of the Advisory Committee. Some consideration must also be given to the use of funds loaned, to ensure its most effective use, for, with proper cash projections, the level of sinking fund investments maintained would probably be reduced and more funds on-lent.

MISSING PAGE

NO. 84

D. St. Vincent DFC's

1. Present State

Development Corporation, St. Vincent

Introduction

The Development Corporation (DC), St. Vincent, was established under the Development Corporation Act, 1970 and commenced business in 1971.

This DC was accepted in 1972 by the Caribbean Development Bank (CDB) as a financial intermediary for channelling long-term funds for development projects in St. Vincent, more particularly in the field of industry and tourism. It has since then approved several lines of credit.

Progress of Operations

During the initial two years, the DC dealt mainly with management of land settlement estates. It was only from 1973, when DC finalized lines of credit with CDB for specific development purposes, that it commenced the main functions of issue of loans for development of small industrial projects.

Though it made commendable progress from 1973 onwards in the issue of industrial loans and establishing factory sheds, its overall development was impeded by its meagre liquidity, increasing operational expense and management's involvement in estate development work. Its operational losses by end of 1975 amounted to $280,000.

Management

The overall Management of the DC is vested in a Board of ten members who hold office for a period of three years. Three small committees have been set up to monitor specific developmental areas of interest. These committees only make recommendations; final approval rests with the Board on all matters.

The day-to-day affairs are under the direct control of the Manager, who is the Chief Executive Officer. He is supported by the accountant, industry officer, extension officer and other supporting staff. The manager has no delegated powers.

Though the proceedings of the committees in the form of minutes are placed before the Board for approval, these are seldom supported by sufficient information. Subject matters on the Agenda are not brought to the attention of members in advance through appropriate memoranda, but are verbally presented by the Manager and discussed at meetings. This has deprived the members of the opportunity to study the problems in depth. Even loan appraisal reports, on the basis of which sub-loans are recommended by loans committee and approved by the Board, are not thoroughly processed and analyzed by the Manager.

Important policy decisions taken by the Board regarding observance of safeguards; such as valuation of land and properties accepted as security, obtaining insurance cover on equipment and machinery forming collateral for loans, etc.; are not invariably implemented in practice.

In view of these lapses, the Chairman has been encouraged to interfere in its day-to-day affairs. Frequent changes of the Chief Executive Officers, coupled with the absence of systems, procedures and measures of internal control have diluted the role of successive Managers. Frequent changes in middle level staff and lack of training are also responsible for the present disarray of the DC.

## RESOURCES

### Paid-Up Capital

The statute establishing the DC does not provide for a capital structure either by issue of shares of otherwise.

The land settlement estates and other landed property collectively valued at $3.01 million transferred to it by the Government form the nucleus of its operations. The sale of land (mainly at Ottley Hall) till end of 1976 had been meagre at $114,715 and sizeable amounts are collected in instalments.

### External Funds

### Borrowings from Commercial Banks

To develop and manage the estates, it has established regular overdraft and demand loan arrangement with a commercial bank. The overdraft has been almost repaid from the amount received from ADC for settlement of the estates taken over by it. The demand loan for development of Ottley Hall Estate stood at $105,864 as of December 31, 1976. The outstanding amounts are repayable in annual instalments of $20,000.

The DC had been keeping sizeable amounts with the same bank in short-term deposits at 3% and 4% p.a. interest while concurrent overdraft and loan facilities were being availed of at prevailing rates of 12% to 13%.

Borrowing From National Provident Fund (NPF)

To satisfy the preconditions for borrowing from CDB for the Small Industry Credit Scheme, the DC borrowed during 1973 sums amounting to $250,000 from the NPF at varying rates of interest. These amounts are repayable in ten equal annual instalments at an interest rate of 7 1/4%. The DC has not yet paid the arrears of interest amounting to $97,312.

Borrowing From CDB

The DC's operations assumed significant levels only from 1973 when it started drawing funds from the first loan for Small Industry made to it by CDB. Since then CDB extended different lines of credit to it for industrial projects, industrial sheds, student loans, etc.

The borrowings from CDB and NPF are posted in subsidiary ledgers in such a way that the individual net balances are subsumed under one single balance and are invariably recorded in pencil. The draw down on CDB loans are recorded only in EC$ and hence the indebtness in foreign currencies are not available. The outstanding loan balances are not therefore reconciled with periodic statements received from CDB. Interest due every quarter is remitted as and when demanded by CDB without any independent check on the basis of its books.

Disbursements of funds and the day-to-day outstanding amounts are not classified and recorded on the basis of source and use of funds. Recoveries of loans from local and CDB resources are not posted into separate control accounts. In view of these state of affairs, recoveries of loans from CDB funds are being reloaned as if they are local funds; i.e., for purposes precluded for use of CDB funds.

A Register showing commitments falling due for repayment over a period of time is not kept.

## USE OF RESOURCES

### Cash with Banks

No bank account is maintained in the general or subsidiary ledgers. For some time in 1975, it had as many as twelve accounts with two commercial banks representing funds from different projects and inter-transfers of funds between them were frequent. As the contra-entries were not appropriately sorted out, the bookkeeping system has been left in disorder.

When the examination of its books was taken up on February 9, 1977 there were only two bank accounts with balances amounting to $56,175.20.

Reimbursement of sub-loans from CDB had been the chief source of cash inflow while recoveries from sub-loans and sale proceeds of lands were small and less frequent. But for the floats made available by CDB, funds for its loan operations would have been negligible.

### Investments

In 1973, the DC invested $20,000 by subscribing to 20,000 shares of $1 each in St. Vincent Packers Ltd., a piggery project financed by CDB and CIC. The DC is represented on the Board of Directors of the Company. According to an unaudited Balance Sheet of the company showing its position as at December 31, 1975, its accumulated losses of $292,526 wipes out almost 75% of its capital indicating that the shares of the par value of $1 each are only worth 25 cents.

## LOAN OPERATIONS

The DC made considerable progress in the disbursement of small and ordinary loans for industries during the three years 1973 to 1975; the total loans disbursed until end of 1976 were $1.21 million of which $0.86 million was from CDB funds and $0.35 million from local funds. By the end of 1974 the entire local funds borrowed from NPF were disbursed and hence loans of $99,966 disbursed in 1975 were partly out of recoveries of loans from local funds at $44,777 and the balance from loan recoveries out of CDB funds.

In 1976, the DC disbursed no loans from local funds while those from CDB funds dwindled to $101,281, the reasons being poor liquid position, rising backlog of arrears in loan repayments and increasing number of projects getting bogged down with financial and managerial problems.

However, during the last two months of 1976, DC again approved nine loans for $0.89 million entirely from CDB funds. As of the end of December 1976, the total loans for industries were overcommitted at $1.84 million as against the total available funds at $1.75 million. As the DC does not maintain a register of commitments, a meaningful watch over such figures was not readily possible.

Though four out of the nine loan approvals made since November 1976 were for amounts in excess of EC$75,000, they had not been referred to CDB for its approval until the time of this examination in February 1977. In one case, the DC even advised the applicant about the approval of the loan, though it has been precluded from doing so without getting the prior approval of CDB. The applicant is reported to have placed orders for machinery even before finalizing the document and security arrangements with DC.

## Loan Appraisals and Approvals

All loan appalications are processed by the Industry Officer by interviewing applicants and gathering basic information about the project. The appraisal report on the project prepared by the Industry Officer is directly placed before the Loan Committee for consideration and recommendation to the Board. The Board invariably ratifies the Committee's recommendation. In cases where the appraisal report of the SILO of CDB is not available, approval is given subject to a favourable recommendation from CDB's SILO.

A perusal of the appraisal report of the DC's Industry Officer indicates that while technical and economic feasibility of projects receive satisfactory emphasis, the financial safeguards concerning the safety of the loans such as reports on standing and credit worthiness of appalicants, particulars of security, their valuation reports, manner of securing the charge, etc., are not adequately dealt with. Neither the Committee nor the Board, while conferring approval of loans, spell out the terms and conditions. Copies of minutes approving the loans are not placed on the relative loan files.

All loan proposals may in future be routed to the Committee through the Manager, who should screen the proposals in depth and record his views highlighting specific issues and spelling out the terms and conditions needed to safeguard the dues of DC. This would directly involve the Manager in the loan approval procedure and make him responsible for the administration of loans.

Loan Administration

There is an absence of systems and procedures for loan administration. After loans are approved, there is no systematic approach to the subsequent procedures. The applicants are in a general way informed that loans for a given amount have been approved without spelling out the terms and conditions of approval, the type of documents to be executed or the procedure for complying with the legal charge over the security, etc. As a result, almost all the 32 loans disbursed by DC have one or more procedural irregularities. Some of the major irregularities in sub-loans are such that a few of the loans for comparatively large amounts have been left without any security.

Some of the common irrregularities observed and the extent of their spread are broadly indicated below:

1. Omission to take legal documents evidencing the loan terms and conditions or to secure legal charge over the security

2. Documents incomplete

3. Original documents not on record

4. Landed property forming security not independently valued

5. No insurance policy covering assets comprising main security for loan

6. Borrowers' contribution not brought into project

7. Memo and Articles of Association and Board Resolution from limited companies to borrow not obtained

Project Supervision and Follow-Up

The DC has not yet introduced a system for follow-up and monitoring of projects. Even copies of follow-up reports on projects by SILO of CDB during his periodic visits are not made use of for action or placed in the respective loan files. Consequently, the loan records are generally incomplete and do not give a connected picture of important developments in each project.

## Loan Recovery

Quarterly letters are sent out reminding borrowers about payment of arrears of principal and interest, but with little effect. Conscious of the rising overdues in repayment of loan instalments and interest, the DC has been endeavouring of late, to obtain standing orders from borrowers addressed to their bankers to remit instalment payments to DC. However, for various reasons, this also has proved ineffective.

All but 3 of 32 loans have a heavy backlog of arrears. Total arrears of principal and interest as at December 31, 1976 amounted to $205,720 or 21% of total loans outstanding at $979,656. This has since risen.

## INDUSTRIAL ESTATES

Six factory shells have been successfully constructed by it at Camden Park covering 30,000 sq. ft. and except for 9,000 sq. ft. for which commitments are reported to have been made, all the space has been occupied mostly by projects financed by it. It has programmes for building two more sheds, one at Bequia and another at Arnos Vale. The rent is fixed at $1.74 per sq. ft. per year on the basis of a 2% margin for maintenance charges. All but $1,000 of overdue rents of $36,000 remains uncollected. Meanwhile, the maintenance charges of $12,000 per year are being met out of general revenues. In view of this serious position, the DC is bound to default in the repayment of principal instalments commencing early 1978.

## OPERATING RESULTS

The DC has been working at a loss every year for the past five years. The working of the land settlement estates has been a heavy drag on its operating income, the net accumulated loss from estates being $261,000. This will be reduced to the extent of $100,000 when full settlement is made by ADC for estates taken over by it.

Rough estimates made on the basis of cash receipts and payments register reveals that its operations in 1976 would result in a loss of $19,000. This is because income by way of interest and rent from factory shells not collected are not reckoned as income. The Government has been giving a subvention of $45,000 till 1974 and $65,000 since 1975 towards its administrative costs.

## BOOKS AND ACCOUNTS

The books and accounts of the DC are in disorder. It has no general ledger while the old ledger has been dismantled and put away in different places. The entries in the accounts had never been posted systematically nor checked; invariably they are made in pencil. Consequently, a connected account of the Corporation's assets and liabilities was unavailable. Though the books were audited up to end of 1974, the items of assets and liabilities could not be traced to the general ledger.

The columner cash receipt and disbursements journals were the only reliable records available for transactions of 1975 and 1976. Though the previous Accountant, who left the DC in 1976, prepared a proforma set of final accounts as of the 31st December 1975, the newly appointed Auditors have expressed their inability to proceed with the audit in the absence of a trial balance and particulars of closing entries of 1974. In fact, they have expressed inability to verify the authenticity of certain items of receivables.

## STAFF

The staff of the DC consists of Manager, Accountant, Industries Officer, Extension Officer and supporting assistants.

The Manager's ineffective control over DC's operations without well-laid systems and procedures has been the chief reason for the confused state of its affairs. Duties of staff must be fixed, reviewed and coordinated.

A series of changes in the staff at higher and middle levels have undermined the continuity of what little procedure is available. The staff need on-the-job training.

## CONCLUSION

As stated earlier, the DC needs to be commended for the spade work done to develop local entrepreneurship and establish 32 projects. It has also done a good job in the construction of industrial sheds.

However, the lack of systems and procedures in its loan administration and non-observance of essential safeguards connected with project lending have been detrimental to liquidity loan portfolio quality. Three projects have failed and another six have landed in serious difficulties. The DC is an unsecured creditor in some of them. Nearly 40% of the loans outstanding have been sticky and the loan arrears have assumed serious proportions.

The absence of loan collections and rent from industrial sheds have seriously affected its cash inflow. The continuance of this position would result in default of payments to its creditors when they fall due commencing early 1978.

## Agricultural and Co-operative Bank of St. Vincent

### Introduction

The Agricultural and Co-operative Bank of St. Vincent (ACB) was established by statute and commenced operations in 1969. It functions as a financial arm of the Government, with the specific objective of fostering the development of agriculture and industries, and of mobilizing funds for the purpose of such development.

The word "Co-operative" in its name does not signify any co-operative principles either in its organizational set-up nor in its operating policies.

This Bank was accepted by the Caribbean Development Bank (CDB) as a financial intermediary for channeling funds for farm improvement schemes. With a view to studying its financial position, operating policies, and procedures; its books, accounts and records were examined by an officer of CDB, March 7-11, 1977, with particular reference to its position as of December 31, 1976.

The main findings are incorporated in the following paragraphs.

### Progress of Operations

Within the terms of its statute, the Bank can accept deposits only from statutory bodies. It can make three types of loans, short-term (up to two years), medium-term (two to five years), and long-term (up to twenty years), for purposes such as purchase of lands, discharge of prior debts, fisheries and livestock and working capital for farming operations. All long-term loans have to be against the first mortgage of land and up to 75% of its value; loans against moveable assets are not to exceed 60% of their value.

The following table indicates the progress of its operation.

| | 1972 | 1973 | 1974 | 1976 * |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Deposits | 335,000 | 375,000 | 355,000 | 355,000 |
| Borrowings (CDB) | 41,298 | 113,777 | 354,187 | 406,016 |
| Loans Outstanding | 359,100 | 486,846 | 690,856 | 634,852 |
| Liquid Funds | 29,500 | 29,300 | 28,900 | 124,230 |
| Operating Results | +8,700 | +4,200 | +4,200 | -14,000** |

* Financial year was changed from December to June and covers a period of eighteen months up to June 30, 1976.

** The loss is due to provision by auditors for bad debts $30,190.

## Management

Its overall management is vested in a Board of seven members, four of whom are ex-officio, holding the posts of Financial Secretary, Chief Agricultural Officer, Attorney-General and Permanent Secretary in the Ministry of Agriculture. The three non-official members are appointed by the Governor in council.

The Board is required to act in accordance with any general or special directions given to it by the Governor.

The day-to-day affairs are entrusted to a Manager who is supported by an Accountant, two Loan Officers, and one Farm Improvement Officer.

All loans in excess of $4,000 are approved by the Board, and those below it by the Manager. The loans approved by the Manager are not reported to the Board for its information.

In the absence of an overall strategy for planned agricultural development, the Bank's lending operations have lacked policy directions or priorities.

The main thrust of loan operations has been to enable farmers to purchase lands and clear old debts. Eligibility for such loans is based on the value of security rather than on the assessed repaying capacity. Though four members on the Board are senior Government officers, there is a total absence of communication between the Bank's loan operations and the Government's extension service. In view of these findings, it cannot be said that the Bank's operations have materially contributed to the advancement of agricultural production.

Though the criteria of viability and repaying capacity have been introduced in the CDB assisted FIC projects, this technique has not been adopted in its general term-lending operations.

## Resources

### (1) Owned Funds

The Bank has neither capital nor resources. In fact, its statute does not provide for a capital structure.

A sum of $14,220 shown in its books as contributed capital, refers to book value of equipment given as a grant from Government, and cost of fertilizers given by CIDA to St. Vincent through the Bank.

(2) Borrowed Resources

a) Deposits $355,000

Since inception, its chief source of funds was comprised of one-year term deposits kept with the Bank, mainly under directions from Government, by statutory bodies like Banana Associations, Marketing Board, Government Savings Bank, National President Fund, etc. The understanding is that such funds will be allowed to roll over and will not be withdrawn except in dire need. These deposits carry 4 1/2% interest per annum, except those from NPF at 6% per annum.

Its deposit resources are thus essentially short-term funds which have been used to lend for periods up to twenty years.

b) Borrowings from CDB $387,092

The Bank was extended a line of credit by CDB for $500,000 on soft terms, which constitutes the main source of funds for its farm Improvement Credit Program. In terms of the loan agreement, it repaid the first installment of CAN$8,333.33 on December 31, 1976.

Another line of credit extended to it on soft terms for US $215,100, is yet to be drawn, while it has cancelled a loan of US $100,600 from CDB's Ordinary Capital Resources because of the absence of bankable projects and the burden of the commitment fee.

Liquid Funds $142,811

The sudden surge in liquid funds during 1976 is due to the perceptible drop in the pace of loan approvals and disbursements during that year. Consequently, the entire recoveries from CDB sub-loans have been kept with it in liquid form.

Loans $618,192

| | |
|---|---|
| CDB Funds | $302,466 |
| Local Funds | 315,726 |

Loan approvals and disbursements during 1976 suddenly dwindled because of severe drought conditions, absence of bankable projects, the growing reluctance to grant loans for fishing boats with outboard engines, and the mounting arrears in loan repayments.

An analysis for purpose of the Bank's loans out of local funds, shows that nearly 35% of the loans are for purchase of lands and clearing off old debts, while loans for fishing operations also rank in importance. Loans for crop cultivation at $56,000 formed

16% of the loans outstanding. Thus the Bank appears to have played only a marginal role in keeping capital formation on land or augmenting productivity.

(1) Loan Appraisals

Loan Officers interview applicants and prepare the applications together with their visit reports, which contain particulars of security, crops, income, etc. While this exercise may be satisfactory for short-term production loans, it is totally inadequate to determine eligibility for medium and long-term loans. An assessment of the payment capacity of borrowers is not attempted.

Though the technique of appraisal of projects and assessment of repayment capacity has been introduced with the launching of the FIC scheme out of CDB funds, such exercises are not even attempted in the case of term loans out of local funds.

The Loan Officers have not been trained in the technique of project appraisals, nor is control over their work being exercised.

In FIC projects, where the total loan amount includes a local funds component, the debt servicing ability of the client has been determined for only the CDB portion of the loan and not the entire debt incurred.

(2) Security

The only documents taken for short-term loans are the promissory notes and letters to marketing agencies authorizing them to deduct the bank's dues from sale proceeds. As these letters of authorization are often countermanded by customers, there is an absence of involvement on the part of borrowers to clear the debt promptly.

In the case of term loans, though the statute prescribes a loan security ratio for landed property and moveable assets, it is not observed in practice. There are instances where the security consists of only the property acquired with the loan. In a few cases the loans are only partly covered, as a bill of sale has not been obtained on the equipment.

Even in the case of FIC loans (CDB funds) three cases were noticed, in two of which the value of security is inadequate to cover the loan, while the third one has no security at all (Mr. O. King, fishery, Mr. Lawrence Brown, fishery, Mr. Leslie Culzac, fishery).

(3) Disbursement

Disbursements of loans wherever possible are made in installments and normally to third parties, thus ensuring proper utilization of funds.

(4) Follow-up

The Bank has no system for regular follow-up of loans, whether from local funds or from CDB funds. There are cases of certain difficult loans where Loan Officers have visited projects and submitted reports to the Manager, but with a strength of two Loan Officers to service as many as 900 loan accounts, there are several cases where no follow-up visits have ever been made.

(5) Recovery

The Bank's statutes have not provided for any special powers for recovery either for crop loans or for those granted against security of mortgages.

Efforts made through the contacting of borrowers have proved ineffective in the absence of a healthy climate for repayment of loans made by the Government's financial institutions.

A private debt collector has now been engaged for collecting dues on difficult loans, for which a commission of 10% is paid and recovered from borrowers.

Suits have been filed for recovery of nine loan accounts in which the outstanding balances aggregate $143,000 and form 23% of the Bank's total loans.

(6) Sub-loans from CDB Funds

All sub-loans from CDB funds are separately recorded and accounted for. The ACB has not so far reloaned funds recovered from projects.

There are thirty-two sub-loans, of which thirteen are for fishery projects. Six of the projects have failed (four of which are fisheries), while two others are in difficulties. The amounts involved aggregate $135,000 and form 44% of CDB loans outstanding. Suits have been filed for recovery of two loans amounting to $50,000.

(7) Loan Portfolio

The granting of term loans without proper appraisal and assessment of repayment capacity has made inroads in the ACB loan portfolio. Many of its loans for purchase of lands and fishery projects have fallen into arrears with no prospects of recovery except through sale of security. Total arrears of principal and interest on 174 loans amount to $177,300 and form 26% of total loans. If arrears of loans from local funds alone are reckoned with total loans of that group, they form as high as 40%, indicating sizeable impairment of its loan portfolio.

The absence of records has prevented an age-analysis.

Operating Results

With the annual subvention of $40,000 given by the Government, the Bank has been able to meet its administrative expenses. This subvention has since been reduced to $30,000 as of July 1976.

The ACB charges 7% per annum interest on all its loans, with 1% penal interest on arrears and on all overdue loans. It thus has an average operating margin of 2 3/4% (3% on CDB funds and 2 1/2% on local funds). Its annual administrative expenses amount to $65,000; and, to enable the Bank to break even, it must issue loans for approximately $2.5 million. This calls for expansion of the present loan portfolio by four times. Having regard to the highly skewed land distribution pattern, the difficult terrain of land, and the absence of bankable projects, the prospect of the Bank's becoming a viable unit appears remote.

Staff

The Manager is supported by an Accountant, two Loan Officers and the Farm Improvement Officer. There are four other members as supporting staff.

CONCLUSIONS

The Bank has been functioning for the last seven years more as a loan office for helping farmers acquire ownership to land and for equipping fishermen with boats and engines, than as a development-oriented institution. Its loan policies have not contributed significantly to augmenting agricultural productivity. The total absence of communication with the Government's extension machinery, and the inability of the statutory marketing agencies to help loan recoveries, have rendered the Bank's credit function ineffective.

Nearly 40% of loans out of local funds are delinquent.

Having regard to the highly skewed land distribution pattern, the difficult land terrain, and the absence of bankable projects, the prospects for the institution to achieve viability by merely catering to agricultural development appear remote. As the Government has already established a Development Corporation for development of industry and tourism, and as both these institutions are functioning with the Government's financial and overall control, it would be advisable to have the ACB amalgamated with the Development Corporation, so that apart from advantages arising from structural rationalization, optimum use could be made of the available financial and trained manpower resources.

## 2. Role in Project

The St. Vincent DFC is expected to be the first DFC to be integrated into a commercial bank. Personnel of that institution and of the St. Vincent National Commercial bank will, with the assistance of the loan supervision unit and AID-provided technicians, prepare a plan of merger.

It is expected that preliminary discussions among the participating elements will set the terms of reference for the proposed merger. The plan will be submitted to the government of St. Vincent. The Government then may request full support of CDB in carrying out the merger. Inter-institutional committees will be assigned to carry out specific analysis, make projections, identify management and staffing requirements, make policy recommendations and prepare financial plans.

The complexity of relationships involved precludes anticipation of the make-up and operation of the committees. It is, however, evident that the ultimate decisions taken are properly those of the government of St. Vincent and of stockholders in the National Bank. Therefore, their representation will be essential throughout the operation.

Upon completion of the merger, the new institution is expected to avail itself of the training facilities of the CDB and of the T. A. available from that source.

## E. The DFCs of Antigua, Grenada, Montserrat, St. Kitts, Belize

1. Present State

Antigua and Barbuda Development Bank

Management Structure

This institution came into operation in May 1974 and has a present staff complement of 10, consisting of:

1. Manager Operations (now acting General Manager)
2. Credit Officer (Housing)
3. FIO
4. Building Inspector
5. Accounts Clerk/Cashier
6. Registry Clerk
7. Receptionist

8/9/10. Secretaries

Since its inception, the institution has never had a Secretary/Accountant, the reason given being that the salary scale available is too low to attract suitable applicants. The Manager/Operations, who is acting General Manager, is also performing the functions of Secretary/Accountant and is consequently unable to devote sufficient time to any of these three functions.

Both the Credit Officer (Housing) and the Building Inspector work almost exclusively on the Housing Rehabilitation Scheme, leaving the FIO and Manager/Operations to perform all other functions (interviewing, appraising, supervising, etc.).

It would appear that the main problems with staffing, stem from the fact that Ministerial approval is required to pay a salary to anyone above $6,000 per annum and this approval is not readily forthcoming. The post of General Manager was advertised, and the Chairman informed us that of the seven applications received, three, including one from the acting General Manager, deserved consideration. However, as mentioned before, the Board is unable to attempt to make any appointment to this post, as Ministerial approval is required. The problem of salary scales applies to all other senior staff positions, and as a result there are other vacancies in the staffing of the institution. The request for revision of salary scales was made to the Minister by letter dated August 26, 1976.

### Management Information

There is a complete lack of any sort of management information. The institution is unable to give any information concerning: number of applications received, for what purpose, number and amount of loans granted for different purposes, monthly income and expenses, and cash projections. In addition, as far as one could ascertain, there exists no regular system whereby loans balances are extracted, aged and dealt with. Generally, basic loan and management information is unavailable.

## OPERATIONS

### Security on Sub-Loans

Several cases were noted where funds had been disbursed before the required security was taken. Apart from the Housing Rehabilitation Loans, there are in most cases no records on file that valuations had in fact been done, nor are the valuation reports available.

It is clear that the practice of disbursing funds before the required security was obtained has been fairly prevalent in this institution. Consequently there now exists a number of unsecured or inadequately secured loans.

### Disbursement Procedures

Disbursements are normally made directly to suppliers of goods and services. Cash disbursements direct to the borrower are not usually permitted.

### Accounting Records

The accounts clerk, apart from writing up the loans ledger, acts as cashier, an unusual arrangement from an internal control point of view.

The records kept by this institution are deficient. The following are the more important inadequacies observed:

a) Loans are not properly identified regarding funding source; the following folders of cards are kept:

1) FIC-CDB
2) FIC-ABDB (Fisheries)
3) FIC-ABDB (Small Farmers)
4) Student Loans
5) Housing

However, there is only one control card covering all FIC loans, one covering all student loans and one covering all SIC loans. In addition, very often only one card is opened for loans funded from different sources and, consequently, it is virtually impossible to ascertain what portion of the balance on the loan cards relates to CDB or ABDB funds. (There are schedules at the back of these loan files that attempt to split monthly disbursements between those from CDB and those from ABDB funds, but this does not help when dealing with individual loans. Repayments, moreover, are never split).

b) Loan cards do not separate principal from interest, as the interest is added to the principal monthly. This situation aggravates the difficulties of breaking down the balance between principal (CDB and ABDB's funds) and interest (ABDB's funds only) It also makes it very difficult to do an age analysis, as the balance of principal and interest are due at different times, due to different grace periods.

c) Information on the loan ledger cards is inadequate as the cards often do not show the basic terms of the loan. In fact there is no provision for such information on the card. To ascertain what accounts are in arrears one has to resort to the borrower's file, ascertain the terms of the loan from the offer letter, see what repayments were made, decide whether these repayments are of principal or interest, and then work out the arrears.

Custody of Securities

There is a lack of any system, which makes it difficult and time consuming to ascertain what securities had in fact been taken and were held in respect of any loan.

In several cases, important security documents such as loan agreements, guarantees, promissory notes, and insurance policies, are carried in the borrower's general file. There is no register or any other record of securities taken, and the only way to ascertain what securities had been obtained was to go carefully through the correspondence in each borrower's general file, a method which is not always foolproof, in view of the possibility of correspondence being misfiled or not filed at all. Some securities were held in one drawer of a fireproof cabinet, but there was no basis for selecting the securities held in this manner, no record of what securities were in this cabinet, nor were these particular securities arranged in any order. As a matter of fact, the CDB also noted that the same drawer was used for storing other non-security documents, including some photographs of an exhibition.

Except in the case of housing rehabilitation loans, there is no register of insurance policies which form part of the banker's securities, and no system of ensuring that they are renewed when they expire.

## Project Supervision and Follow-up

All projects are visited regularly - in the case of SIC projects, once a quarter; FIC projects, at least once in two months; and housing rehabilitation loans even more frequently. However, no systematic records of these visits are kept, and no reports are available.

## Use of CDB's Funds

Because of the manner in which the bank's records are kept, it is not easy to identify loans by funding sources. This comment covers *inter alia* the float of $280,000 granted on the AIC loan. This means that it is possible (and in fact quite likely) that CDB funds were used to meet administrative expenses or for loans which normally could not be funded from CDB monies.

## Board of Directors and Director's Fees

At present there are 11 Board members, with no representatives from Ministries of Agriculture of Tourism. Board meetings are held twice monthly, and, on average, there are 5 or 6 Board members present at each meeting. The Board has recently gained an increase in Directors' fees, which now runs at: Chairman, $500 per month; Deputy Chairman, $250 per month; and other Board Members, $100 per month. This totals to $19,800 per annum - a rather high proportion compared to staff salaries, running presently at approximately $80,000 per annum.

## CONCLUSIONS

The examination of the ABDB's operations leads to the conclusion that the situation in this institution is critical, and that it is in urgent need of, first, a reorganization of its management structure, and, thereafter, the introduction of appropriate systems and procedures.

## The Grenada Agricultural Bank

### Introduction

The Grenada Agricultural Bank (GAB), established in 1965 under Ordinance No. 2 of 1965, mainly to foster and encourage agricultural development and fishing in the territory, has been in operation for over a decade. Its functioning, so far, does not seem to have had much impact on agricultural development, nor did it evolve as an institution built on sound business principles, to plan and direct the flow of resources to the agricultural sector. In 1972, the Government established the Grenada Development Corporation to stimulate and foster the development of industry.

The first manager of the GAB was a retired Bank Manager from the Royal Bank of Canada, who apparently established a good operational system. Since then, however, the functioning of the Bank apears to have deteriorated.

In 1975, in the process of streamlining the institutional structure in the territory, the Government enacted legislation to merge the Grenada Agricultural Bank and the Grenada Development Corporation, to form the Grenada Agricultural and Industrial Development Corporation. The Act became effective December 1,. 1975. However, there are a few deficiencies in the enactment which are in the process of being corrected.

### Organization and Management

The GAB's operations were under the direction and management of a Board of Directors comprising:

(a) Three ex-officio members: the Permanent Secretary in the Ministry of Finance (Chairman), the Attorney General, and the Chief Agricultural Officer (Extension);

(b) Two suitably qualified representatives of agricultural interests, representing the large and small farmers separately;

(c) One suitable and qualified representative of the Grenada Cooperative Nutmeg Association, the Grenada Banana Society and the Grenada Cocoa Industry Board;

(d) The Manager - Chief Executive Officer of the GAB.

Besides the three ex-officio members and the Manager of the GAB, the following representatives served the Board at the time of the Bank's merger:

a Public representative,
a large farmers representative,
and a small farmers representative.

The Board of Directors did not seem to have an effective role in decision-making and in influencing the public policy on agricultural development.

It is probable that a smaller Board, composed of persons having knowledge and experience in developmental fields, could achieve the desired objectives and ensure a smooth functioning of the institution. The reorganized institution does not include a Chief Agricultural Officer. Because the institution is mainly engaged in agricultural financing, it would benefit much from the experience, knowledge and expertise of an ex-officio director who is mainly concerned with agricultural development policy in the State.

Management

The day-to-day operations of the Bank/Corporation are under the direct control and supervision of the Manager. He is assisted by an Accountant, two Field Inspectors, one Farm Improvement Officer, one Cashier and other supporting staff comprising three Secretaries/Typists. The Bank, though adequately staffed was found to be inefficient. It was observed that there was a lack of coordination and communication between the Manager and the Accountant; neither did the Manager seem to be capable of supervising the work of the Accountant, nor did the latter display a sense of appreciation of the role and functions of the Bank. The Accountant, though reportedly qualified (there is no proof of this) but aged, did not seem to be capable of handling the position with competence, vigour, imagination and drive. Functions relative to effective internal control were not being carried out systematically nor was routine work properly delegated.

The Manager of the Bank spent too much time in interviewing the borrowers about details, and completing routines which should be handled by clerical staff. Consequently, the Manager was not able to perform effectively the important core functions, engage in analysis of the internal operations or engage in forward planning and projections. Some of the basic principles of development banking (including the importance of project appraisal and supervision, which are vital to the functioning of the Corporation) do not appear to have been fully understood either by the Manager or the Accountant.

Supervision over the assisted projects was inadequate, inasmuch as there was, until recently, only one inspector. Lack of adequate supervisory and field staff has had its effect on the quality of appraisal and project supervision. The appraisal document did not contain all the relevant particulars for a critical evaluation of projects; and there was no proper credit analysis done on the different projects approved by the Board.

One effect of the lack of a sound organisational structure and adequate supporting services was that several of the assisted projects ran into difficulties; the Bank does not seem to have taken timely remedial action and eventually many had to be referred to the solicitors for legal action.

Books of Accounts

An examination of the books of accounts, and record keeping in general, revealed several serious weaknesses. The Bank maintained the following registers/ledgers:

1. General Ledger
2. Loan Disbursement Register
3. Repayments Registers - Local loans and FIC
4. Due Dates Register
5. Cash Book
6. Fixed Deposits Register
7. Receipts/Cheque Book Register

In the Loan Disbursement Register, all disbursements made by the Bank were serially entered, and it was difficult to find the total disbursements, as of any date, made to a particular project. There was no adequate Loan Register to indicate, with separate folio for each loan account, the details of loans approved, committed, disbursals, repayments of installments due, and payment of interest. The Repayments Register, contained entries in a serial order according to the date of receipts, without proper reference to the total repayments received for a single loan account. It was explained that the Bank maintained individual 'Loan Cards' which indicated the disbursements, repayments, outstanding balances, interest received, etc. These loose cards, kept with the Cashier, were stated to be under the direct supervision of the Accountant.

The Bank had been experiencing difficulty in computing particulars of approvals, commitments, disbursals, repayments, outstandings balances, particularly for loans from local resources. The Manager was also not in a position to categorise the loans approved or disbursed, either according to purposes, or according to the sectors to which they percolated.

The Bank did not have any clear record of requests for loan assistance; and did not make any projections of the requirement of funds for the investment program in the agricultural sector.

There was no Securities Register maintained at the Bank. The Secretary to the Manager freely handled the Securities, under instructions from the Manager.

The loan files containing appraisals and correspondence did not have enough information. In several cases, it was not possible to ascertain the exact status of the loan accounts. Some loans appeared to be inadequately secured, whilst in some cases there was no security at all.

Audit

The Auditors of the Bank, Messrs. Pannel Fitzpatrick & Co., indicated that the audit was carried out on the basis of a rough trial balance prepared by the Accountant; the Auditors were reported to have had difficulty in reconciling the particulars of outstanding balances and defaults in repayments. The Auditors Report for 1974 cast doubt as to the recoverability of loan installments together with interest thereon. In some cases the value of securities taken fell short of the requirement. In fact, some of the borrowers had left the State and their return was doubtful.

## OPERATIONS

### Policy

In the main it was difficult to assess the operational directions of the GAB because of a lack of definite policies pursued by the Bank. It seemed, in general, that there were no guidelines for dispensing supervised agricultural credit, nor was any list of priorities drawn up in consultation with the Planning Authorities. It appeared that there was no strong link between Credit and Extension Service. In essence, the most crucial problem was the lack of, or failure to, implement any policy for agricultural development. There did not seem to be any attempt by the GAB to integrate the agricultural credit program with the development program.

The concept of supervised credit and planned extension of credit appeared to be novel to the GAB. It was understood that the attachment of an FIO to advise and formulate capital improvement schemes, as well as to ensure utilization of credit, was proving irksome both to the GAB management and the borrowers.

The Bank's appraisal of loan requests had been beset by obstacles. Some applicants did not expect in-depth evaluation of their requests, and did not consider it appropriate for the Bank to screen the projects and evaluate them critically. It was understood that, in the past, loans from local resources were disbursed in a large measure without any proper appraisal having been undertaken, or without adequate background information. There were also instances where it appeared that loans were approved after effecting disbursements.

### Performance

Analysis of the loans outstanding as of December 31, 1975 revealed that about 44% of the total loans were for long and medium-term purposes; short-term loans out of the local funds accounted for the balance. The supervisor's reports and other information available from the Bank and from informal discussions, indicated that, in some cases, loans were used for purposes other than those for which they were intended.

A disturbing feature of the operations of the GAB was a markedly high proportion of defaults in repayment of installments and in payment of interest.

Overdue loan repayments, as a proportion of total outstanding loans, as of December 31, 1974, constituted about 30% on the whole.

While they were a comparatively small proportion of long-term loans (20%), they were of very high $ value and proportion to medium and short-term loans, reaching as high as 92% for short-term agricultural loans. Out of 156 loan accounts, as many as 93 loanees had not paid up the due to the Bank.

While the overall picture was disturbing, the operations under the FIC Scheme, which started in 1972, were in a fairly satisfactory state. Overdue loan repayments under this scheme formed about 3.7% of outstanding loans, as of December 31, 1974, and about 4.5% as of the end of December 1975.

The low overdues position under the FIC Scheme could be directly attributed to relatively higher appraisal standards and criteria, and, significantly, to a better level of supervision exercised.

The mounting overdues position since 1971 has, no doubt, to be seen in the context of the general economic position of Grenada. The economy of Grenada has been passing through a period of stress and strain. Commercial agricultural production has either been static or declining over the last 4 to 5 years. The low banana and cocoa output in recent years, resulting from the effects of rising input prices, poor management, and the lower prices in the world market, has had its effect on farmers incomes. At the same time, the Bank did not seem to have taken adequate safequards against the effects of these factors.

The loan capital from the Government, received during 1966-70, was repayable in ten equal installments, after an initial moratorium of 5 years. The unpaid installments as of December 1974 amounted to $629,043. As a substantial portion of the loans made out of the General Fund were not being repaid on due dates, the ability of the Bank to service the loan capital was very weak.

CONCLUSION

In the working of the GAB as a development finance company, there does not seem to be clear objectivity in the Bank's loan operations or in policy guidelines and procedures.

There is need for taking effective steps aimed at improving its organisational structure and account keeping. On the operational side, it will have to pay greater attention to project appraisal, implementation and supervision; and it should integrate its loan operations within the framework of the agricultural development program of the Government. If it is to be effective, its administrative structure will have to be altered and its staff should be more fully trained.

## Montserrat Development Finance and Marketing Corporation

### Organization and Management

This institution has a present staff complement of 27 consisting of:

1. General Manager (provided under BDD Technical Assistance)
2. General Manager's local counterpart
3. Secretary/Accountant (provided under BDD Technical Assistance)
4. Accountant
5. Farm Improvement Officer
6. Industrial Development Officer
7. Loan Collector
8. Cashier

9/10. Bookkeepers
11/23. Graders, Packers in Marketing Division
24/27. Cold Storage Manager and staff

Their activities cover lending, marketing, sale of agricultural inputs such as fertilizer, and sale of imported stocks such as meats. As a definite policy in its operations, the lending activities play a much lesser role than the others, and this is reflected in the composition of the staff.

The Manager, who is responsible for the day-to-day operations of the institution, is guided by a Board of five Directors. There are two ex-officio members: The Director of Agriculture and the Financial Secretary; and three others: presently the Principal of the Secondary School, one of the school's teachers and an employee of a real estate firm.

The Manager, without reporting to the Board or obtaining Board approval, can grant loans under $2,500. Loans over this figure must be approved by the Board.

The manner in which the books of account and records are kept does not make it easy to obtain any meaningful information about its operations, the regular submission to Management of reports, figures, analyses, etc.

### Security on Sub-loans

The DFC ordinance provides for different types of security for short-term (less than 18 months), medium-term (less than 8 years), and long-term (less than 15 years) loans. Most of the loans granted are medium-term, and the security required by Section 27 (2) of the Ordinance all or any of the following:

(a) a mortgage
(b) a bill of sale;
(c) an insurance policy on the life of the borrower;
(d) crop liens;
(e) other sufficient and realizable security including stocks, machinery, accounts receivable, and negotiable contracts.

This corporation has been granting medium-term loans on marketing agreements, which are undertakings to sell one's produce to the marketing corporation which may make deductions as it thinks fit. Failure to comply results in the outstanding loan being immediately repayable. This does not appear to comply with the Ordinance, as it does not constitute sufficient realizable security. Failure to comply with the agreement does not give the Institute any rights of seizure on sale, and leaves it with no specific security.

Almost all of the long-term tree crop loans granted out of FIC funds were to farmers working land leased from the Government. Section 27 (1) of the Ordinance provides that long-term loans may be granted only on a mortgage of land, or, if the land is leased from the Government, then on a Government guarantee of the loan. In several cases neither the mortgage, Government guarantee, nor insurance policies have been received as security. In other words, these loans are unsecured.

A further observation is that loans of 5 to 8 years are sometimes granted with the only security being a bill of sale on machinery and equipment. Needless to say, after 5 years such machinery may have passed its useful life and, on a foreclosure, a market may be non-existent.

Even in cases where a mortgage on land or buildings has been taken, no attempt is made to obtain a valuation, and is impossible to assess the adequacy of these securities.

Disbursement Procedures

No disbursements are made until at least the legal advisor approves. This may be, not after the necessary documents have been executed, but rather, after the legal advisor receives the title deeds, etc., and is satisfied that he could execute the necessary documents. This clearance is not normally given in writing. Adherence to the procedures was not borne out by an examination of the files. These revealed several instances of disbursements being made before correspondence to the legal advisor regarding security.

Documentation to support expenditure is always asked for.

## Project Supervision and Follow-Up

Supervision of the CDB's loans is done by the FIO. There are less than 30 such loans, and they are visited once per month by the FIO and even more often where the project is in vital stages of implementation. There are no supervisory field staff employed to cover the other loans made by the institution, and follow-up is undertaken by the loan collector only when a borrower is in arrears. The reason given for the failure to follow-up loans until they are seriously in arrears, is the lack of staff. More than 30 per cent of the loan balances are overdue, and there is, at present, a drive to recover some of these overdue amounts.

## Books of Account and Audit

Half yearly, a trial balance is extracted and draft accounts prepared. Under Section 46 (1) of the Ordinance there is a provision for the appointment of an independent auditor, as distinct from the Government auditor who regularly examines and reports on the accounts. At present the only audit done is carried out by the Government auditor for a fee.

Although there are deficiencies in the way in which the books of account are kept, the Secretary/Accountant under BDD Technical Assistance is in the process of reorganizing the accounting system, and these deficiencies are being corrected. It should be noted that there are three funds set up under the Ordinance, which makes provision for appropriations from the credit and marketing fund to the general fund from which all administration expenses should be met. In the accounts submitted, appropriations are made the other way around, with the loss remaining in the Marketing and Credit Fund instead of the General Fund.

## Filing

There are four main files kept with correspondence and documents relating to loans; these are:

(a) Correspondence with Legal Advisor;
(b) Borrowers' General File;
(c) File with all Securities;
(d) Files of applications for loan assistance.

To trace the history of a loan account, therefore, one has to peruse all the files, and there is no one file that reflects the whole history of a loan account. Incidentally, this institution does not possess a fireproof cabinet to keep its files and records.

## Custody of Securities

The majority of security documents held are in the same file and kept in the safe. No record is maintained of what documents are held. In conjunction with the fact that individual borrowers' files do not contain correspondence to and from the legal advisor regarding security, it is most difficult to ascertain the exact security position of any loan.

## Conclusions

Lending forms only a minor part of this institution's operations, and the observations made of these activities must be viewed in the right perspective. The importance that is attributed to this aspect of its operations is reflected in the amount and the slow drawdown on loans to this institution. Unless some thrust forward is made in this area, the institution's developmental impact on the State would continue to be marginal.

In its marketing operations it appears to be playing a dual role: both as a commercial retailer of imported produce, and as a developer offering incentive prices to producers and working on a small or negative margin. As such, heavy losses are possible, especially when there are gluts in the market and losses through bad storage. The extent of these losses and their impact on the institution are apparent in the audited accounts for the 18 months ended June 1976.

While the CDB monitors the corporation's credit operations, these losses on the marketing side, over which the CDB has no control, affect the whole corporation.

In fact one should reconsider the role of this institution, as to whether or not its diverse functions are compatible (for example, consider the conflict of interest where the same institution is importing meats and pushing the financing of a beef production project), and as to whether or not it can be classed as a financial intermediary as such, bearing in mind the very minor role its credit operations play.

In short, it is difficult to form a fair impression of the overall management and operations of the institution without, firstly, consideration of its other activities, and, secondly, consideration of the implications of having such a joint institution.

St. Kitts - Nevis - Anguilla DFC.

1. Constitution

The DFC was established by Act No. 8 of 1968 and commenced business in 1971. It has an authorized share capital of $2 million shares of $10 each.

The schedule to the Act refers to the Board of Directors and to its composition and mode of appointment, but does not define its powers, duties and responsibilities, which have to be inferred from a reading of the Act.

The interpretation clause does not help, as it defines the "Corporation" but not the Board of Directors, and it appears that several provisions of the Act do not make any distinction between the Corporation and the Board of Directors and refer to them indifferently as though they were one and the same.

On the other hand, the position of Manager is dealt with fully. He is appointed by the Minister; he shall be the Chief Executive Officer of the Corporation; and he shall be responsible to the Corporation for:

a) the day-to-day administration of the Corporation's affairs;
b) the provision of technical advice and guidance in matters of policy.

The Act states that the Minister of Finance may, after consultation with the Chairman, give directions of a general character to the Corporation as well as specific powers in:
a) the disposal of capital assets;
b) the application of the proceeds of such disposal;
c) the exercise by the Corporation of its borrowing powers.

Board of Directors, Meetings and Minutes

The Act provides for a Board of not less than three nor more than seven persons. The present Board has five members, but none of them can be said to have agricultural knowledge or experience. Board meetings are held regularly and attendance is satisfactory. The minutes of the Board meetings are well maintained in a Minute Book. The minutes pertaining to loan approvals are, however, often incomplete, and do not record material particulars. In fact, in some instances, the minutes merely give the name of the borrower and state that the loan was approved. No extracts of the Board minutes pertaining to a particular sub-loan are placed in the individual sub-borrower's file.

## Organization

The staff of the DFC consists of:

1. Manager
2. Business Promotions Officer
3. Industrial Information Officer
4. Accounts Clerk
5. Assistant Accounts Clerk
6. and 7. 2 Secretaries
8. Messenger.

The Secretary of the Corporation is a civil servant appointed with the approval of the Minister.

There is no Farm Improvement Officer in St. Kitts, but the FIO from Montserrat visits the DFC periodically or as required.

The DFC can also obtain the advice and assistance of some expatriate advisers who are attached to the Government, and two of whom have their desks in the DFC office.

The overall organization of the DFC is weak. Management has not been able to introduce or operate basic systems and procedures essential for the proper functioning of the DFC. The state of the accounting records is inadequate.

## Management Information

There is an almost total lack of any management information, which is all the more serious because of the delay in the preparation of the audited financial statements. The accounts for the year ended December 1974 were not available until June 1976 and those for the year ended December 1975 are still in draft form.

Apart from these belated accounts, there are no periodical statements of income and expenditure, nor cash flow statements prepared on a monthly, quarterly or even half-yearly basis. No monthly trial balances are extracted. No periodical statements of arrears of installments and interest are prepared, and the Manager apparently relies on his memory for taking any follow-up action to recover arrears.

There is, however, a Register of Loans where relevant details of loan applications and their disposal are maintained, but the Manager was not certain whether this was up to date. Apparently there is no procedure for submitting reports to him at stated intervals.

## Operation

The DFC's resources consist of share capital of $10,000 and long-term loans and advances from the National Provident Fund and the

Government, as of December 31, 1975 were:

| | $ |
|---|---|
| Advances to a Government-sponsored Garment Factory | 481,000 |
| Working Capital | 238,000 |
| Accumulated Deficit | 250,000 |

Some contribution was also made out of these resources to Fixed Assets, and to Loans and Investments (local resources).

It is significant that, of a total loan portfolio of $409,213, according to the draft accounts as of December 31, 1975, the Auditors have considered it necessary to make a provision for losses of $250,692.

Loan Procedures

The Manager is expected to prepare a "brief" of each project before he submits it to the Board with his recommendation. In several cases, the briefswere not on the file.

It is not always easy to discover the precise terms on which a loan has been approved. There are several reasons for this. The Board minutes are often incomplete and sometimes merely state that the loans had been approved, without giving details. In one case, two guarantors were mentioned for the first time, only in the minute forwarding the file to the Minister. Letters of offer to borrowers are also generally incomplete and omit material terms and conditions. In some instances, the letter of offer merely advises the borrower that his application for a loan has been approved, and does not convey any further information as to amount, terms and conditions, etc. There were instances where we could not find a copy of the letter of offer on the file.

In several material respects, therefore, the procedures for approving loans were found to be inconsistent, unreliable and unsystematic.

Security on Sub-loans

In several instances, the security taken did not correspond with what appeared to be required. In the case of Offset Commercial Printers Limited, where the guarantee of the Directors of the company was required, the Directors of the company subsequently objected to the guarantee, which was not given.

Security documents themselves are defective. When guarantees are required, no legal form of guarantee is taken, but just a letter from the proposed guarantor saying he is prepared to guarantee the loan. In one such letter even the amount of the loan guaranteed was not stated.

Custody of Securities

All security documents are supposed to be held in a safe custody box which the Corporation rents from the St. Kitts-Nevis-Anguilla National Bank. There is no register for these securities. They are, however, recorded in a list on file. Verification of the list against the securities, however, showed that the list was inaccurate. Several security documents are not at the Bank but are held in the borrower's file. In some cases Loan Agreements were neither at the Bank nor on the file.

Insurance policies which are taken as securities are not assigned to the Corporation. Neither is there a register of these policies with records which will enable the Corporation to ensure that they are renewed on expiry.

Disbursement Procedures

Disbursements are usually made direct to suppliers of goods and services, and cash disbursements direct to the borrower are generally not permitted. One case examined showed discrepancies between the equipment listed in the appraisal report and that which was ultimately purchased.

Supervision and Follow-Up

Regular supervision visits are made to all projects. However, no record of these visits is kept, nor are any reports of the visit made and filed. There is also no system for following up arrears of principal and interest. Borrowers are not advised of payments falling due, nor are they sent reminders of installments and interest payments in arrears. Whatever follow-up is done, is on a personal basis, relying on the memory of the Manager and perhaps the Accounts Clerk.

Accounting Records

The accounting records are maintained by the Accounts Clerk who has an Assistant. The basic accounting records have been established, but they are not maintained up to date so as to provide even the minimum financial information necessary for management.

The general ledger is not posted monthly, and in fact it would appear from a perusal of the postings that they seem to be done annually. The Subsidiary Ledgers, however, and the Debtors Ledger and the Creditors Ledger, are kept up to date. The method of recording entries does not permit the ready identification of capital and interest payments or payments on CDB funds and other funds, as the necessary adjustments to the original entries are not made on a regular basis. As a result of the above, no periodical trial balances can be extracted, and no financial information is available to management.

The Corporation maintains several bank accounts, but the routine procedure of doing a monthly reconciliation of these accounts is not observed.

Conclusions

The existing relationships between the various components of this institution: the Minister of Finance, the Corporation, the Board of Directors, the Chairman and the Manager; need re-examination in the light of the practice of the Minister's final approval being required for all loans, and the operating assumption that security requirements may discretionally be varied.

## Development Finance Corporation, Belize

### 1. Introduction

The Development Finance Corporation (DFC), Belize, established under an ordinance passed in 1961, was reconstituted through an amendment in 1972 as a statutory corporation wholly owned by the Government. Incidental to its reconstitution, various measures of reform were initiated, to set up its functioning as an autonomous corporation generally based on commercial lines. The Registered Office of the DFC was shifted to Belmopan (the capital of Belize), and the assets and liabilities of the Agricultural Credit Fund and the small Farmers Development fund, previously administered by the Belize Marketing Board, were taken over. A new General Manager was also appointed with responsibilities to develop the DFC's methods of operations on lines acceptable to regional and international aid-giving agencies. Thus, the measures of reform implemented in the earlier half of 1973 Thus, the measures of reform implemented in the earlier half of 1973, opened a new chapter in the short period of the DFC's existence. Consequent to this, the CDB, CIDA and other aid-giving agencies accepted the DFC as an intermediary for channeling institutional credit for the development of the country.

### 2. Management

The overall management of the DFC is vested in a Board of seven members, three of whom are ex-officio Government Officers, the other four being appointed for two-year periods by the Minister of Finance, in consultation with Ministers responsible for industry as well as agriculture. The Chairman and Deputy Chairman are also appointed by the Minister of Finance.

During the last four years, the Board invariably met monthly, and more often as needed, depending on demand for loans. The loan proposal papers and other matters submitted to the Board through recorded memoranda, reflect sufficient details to enable members to keep in touch with important developments in the affairs of the DFC.

The day-to-day affairs are under the direct control of the General Manager, who is its Chief Executive Officer. He is supported by the Assistant Manager, Accountant, Secretary, and Heads of Technical Divisions dealing with agriculture and industry, including tourism and housing. Though there have been instances of procedural lapses, leaving room for streamlining of its systems and operating practices, enumerated below under appropriate paragraphs, it has to be said that the Board and Management have been found to be generally functioning with understanding and co-operation. The enthusiasm and team work promoted by the General Manager have played no mean part in this administrative cohesion.

3. Resources

(1) Owned Funds - $1.69 million

| | | $ 000s |
|---|---|---|
| a) | Share Capital | 385 |
| b) | Other Captial Funds | 984 |
| c) | Reserves | 318 |
| | | $1,687 |

a) Share capital issued and funded by the Government of Belize, consists of 38,454 shares of $10 each. All shares were vested in Government at a fair market value of $11.15 per share, and the private shareholders were given the option to cash them or accept, in lieu thereof, 6% debentures with tax benefits.

b) Other capital funds comprise:

| | $ 000s | |
|---|---|---|
| Contributions from Government as counterpart Funds | 450 | (Mainly from UK grants.) |
| Contributions from Government specifically for equity participation in Belize Livestock Limited | 200 | |
| Loan recoveries out of agricultural credit and small farmers loan funds, hurricane rehabilitation and banana drought scheme, all set up through UK grants. | 319 | (Loan recoveries of principal are capitalized while interest is taken as income.) |
| Forfeited Shares | 15 | |
| | 984 | |

These capital funds will eventually be converted to shares and issued to the Government.

c) Reserves comprise:

| | $ 000s |
|---|---|
| General reserve - accretion from profits | 208 |
| General provision for loan losses - 1/2% on outstanding loans each year | 110 |
| | 318 |

The DFC has been following a prudent policy of building up reserves and making general or specific provisions for loan losses. In addition, losses on seven specific loans for $113,000 were provided for out of 1976 profits.

Its owned funds, at $1.69 million, form 16.6% of borrowed funds. Continuing accretion to capital funds could be expected, as recoveries become capitalised from loan funds made out of UK grants. Of late, the DFC has been persuading the Government to augment and widen the capital base by inviting public subscription to its shares.

(2) Grants and Trust Funds - $1.23 million

These represent mainly UK Government grants to the Government of Belize, channeled through the DFC for credit assistance to subsistence and tenant farmers, forest labourers, fishermen, etc. Funds for specific rehabilitation assistance programs, such as banana drought, hurricane, etc., are also included under this head. Recoveries made out of loan assistance from UK grants are permitted to be recycled as capital funds of the DFC.

(3) DFC Investment Company Limited

With a view to encouraging the movement of public savings into investment channels, the DFC promoted a subsidiary company in November 1976. As a recognition of this promotional venture, the Government has given tax concessions on its profits.

The DFC has taken steps to transfer its equity holdings in the above limited companies, to this new investment company, in return for an allotment of shares in the DFC Investment Company Limited. The DFC is also taking steps to sell shares of this company to the public.

(3) Borrowed Funds - $10.15 million

The DFC does not accept deposits.

| | | $ 000 |
|---|---|---|
| a) | Borrowing from CDB | 6,154 |
| b) | Borrowing from CIDA | 3,994 |
| | | 10,148 |

a) Borrowing from the CDB

As of the end of December 1976, funds borrowed from the CDB formed 61% of the total borrowed resources.

Prior to audit of the books and accounts of the DFC for the year ended December 31, 1976, the outstanding borrowings from the CDB stood at $5.73 million. On the insistence of its auditors, its liabilities repayable in foreign currency (including those from CIDA) were revalued at the prevailing rate of exchange, and the net loss of $562,043 was shown as recoverable from the Government and the respective liabilities increased (in the case of the CDB to $6.15 million).

As of the end of December 1976, it had an unutilised loan limit of US $522,000 from Ordinary Resources for agricultural and industrial credit, and US $1,264,000 for farm improvement credit. For small industries credit, it had an undrawn balance of US $431,000.

Since inception the DFC has habitually been approving sub-loans and committing funds for projects much in excess of actual resources contracted by it from the CDB. In doing so, it seems to have anticipated the CDB's approval of requests for further funds as readily forthcoming. In fact, its Board of Directors in Octover 1975 directed the Management to always contain its loan commitments within the loan agreements already executed with the CDB, and/or firm assurances given to it.

All drawings by the DFC from the CDB under different lines of credit are recorded in separate accounts in the general ledger, while control accounts for sub-loans issued (showing use of funds) are maintained on the basis of categorized group totals.

As of the end of December 1976, the sub-loans outstanding in the DFC's books (CDB funds) under different lines of credit, aggregated $5.32 million, as against the aggregate sub-loan drawings of $5.73 million from the CDB as of that date. Through no principal installments have yet fallen due for repayment to the CDB, the sub-loans outstanding to prime borrowere have invariably been less than the amounts drawn from the CDB at any one time, indicating that at no time had the DFC utilised loan recoveries from the CDB funds for relending. In fact, loan recoveries out of CDB funds up to the end of 1976 amounted to $0.83 million, and the entire amount has been invested by the DFC as long-term deposits with commercial banks and statutory bodies at prevailing commercial rates of interest. But for small amounts pertaining to Ordinary Resources, the entire loan recoveries relate to soft funds borrowed from the CDB at concessionary rates of interest.

The DFC had been permitted to approve sub-loans up to $75,000, later increased to $100,000, and to obtain proper approval of the CDB only when sub-loans exceeded these limits. In terms of the DFC's Board of Directors' decision, the management had been given blanket permission to increase the limits of loans already approved, to the extent of 15%, wherever necessary on account of "contingencies" to cover inflated costs of projects. In all cases where such increases occurred, reimbursements were claimed automatically from the CDB. Such a precedure was even adopted in a few cases where the increase resulted in the loan exceeding the $100,000 limit where CDB's prior approval should have been obtained. The DFC thereby obtained reimbursements from CDB in excess of the limits originally approved for such sub-loans.

Likewise, the DFC had been exempted from sending receipts of prime borrowers evidencing expenditure of proceeds of sub-loans up to $10,000, while forwarding applications to CDB claiming reimbursement of sub-loans. It was, however, noticed in several cases, that such receipts did not exist on DFC's files.

b) <u>Borrowings from CIDA - $3.99 million</u>

During 1975 two tripartite agreements were executed by the Government of Belize, the DFC, and CIDA, in terms of which CIDA extended two loans aggregating $3.86 million to the DFC, free of interest, repayable in fifty years with a ten-year grace period. These funds are intended to giver development loans for financing agriculture, industry, and agro-processing, including fishing and forestry. The funds could also be used to provide working capital for agriculture and industry, as well as for equity participation in new industrial ventures. The maximum for sub-loans from such funds is $150,000, while those above $75,000 require prior approval for CIDA. Whereever equipment is to be purchased out of loan proceeds, a Canadian content of 66 2/3% has to be ensured.

As of the end of 1976, approvals of sub-loans out of these funds totaled $1.42 million for agriculture and $0.56 million for industry, with disbursements totalling $1.08 million. Unlike the reimbursement system of finance for CDB funds, the CIDA funds for $3.86 million have been made available to its outright in cash. Consequently, the difference of $2.78 million out of these funds has been invested as term deposits with commercial banks and other statutory bodies. In view of the interest-free nature of the funds, and the availability of other borrowed resources, the DFC appears to be less anxious to commit these funds.

Resources U.S. $

(1) Liquid Funds - $3.61 million

| | | $ 000 | |
|---|---|---|---|
| (a) | Term deposits with commercial banks | 2,400 | 7% per annum |
| (b) | Term deposits with statutory bodies | 1,180 | 8 1/2% per annum |
| (c) | Net balances in current accounts with banks, etc. | 32 | |
| | | 3,612 | |

The DFC's liquid funds had all along been maintained at a high level. The proportion of liquid funds to borrowed funds, which was as high as 71.6% in 1973, had been, however, gradually reduced to 35.6% by the end of 1976. In fact, income from such deposits during 1976 formed as much as 50% of interest income and 28% of its gross income.

The bulk of these deposits, viz., $2.75 million, represents unutilised CIDA funds, while the balance of $0.83 million could be construed as representing loan recoveries effected out of CDB funds.

(2) Investments in Shares of Limited Companies - $0.43 million

The DFC holds equities in the following two private limited companies.

| | | $ |
|---|---|---|
| a) | Fully-paid ordinary shares in Belize Feeds Limited | 180,000 |
| b) | Fully-paid ordinary shares in Belize Livestock Limited | 250,000 |
| | | 430,000 |

Belize Feeds Limited is a private limited company registered in April 1975 for the purpose of manufacturing feed out of citrus fruit pulp. The DFC invested in the equity of this company from CIDA funds after securing its approval. As a part of the DFC's overall assistance, loans to the tune of $296,498 have also been extended to the company.

The other shares of this company are entirely held by Salada Limited, Belize, which itself is a wholly-owned subsidiary of an American company. According to negotiated agreements already made, certain portions of the shares held by Salada Limited, Belize, are to be passed on to local citrus producers, the purchase price to be deducted out of sales proceeds of citrus fruits. The company's operation in 1976 produced a loss $110.183.

Investments in the shares of Belize Livestock Company Limited were made out of $2000,000 specifically provided by the Government of Belize, and the balance out of $50,000 of the DFC's own funds. This represented a 33% equity holding of Belize Livestock Company Limited. The company has been newly formed to reorganise the working of the previous meat packing plant, and hence CIDA did not permit the use of its funds for this investment. The company is in the process of reorganising its affairs.

In March 1977, the Government directed that the DFC should not enter into any equity investment arrangements without obtaining its prior approval. In April 1977 the DFC had approved, in principle, an equity investment of $75,000 in Belize Clay Products Limited.

Sub Loans

Within four years of the DFC's operation, it has made considerable progress in the disbursement of sub-loans, which increased from $397,000 at the end of 1973 to $9.11 million by the end of 1976. Cumulative loan approvals during that period rose from $3.07 million to $14.74 million, the ratio of disbursements to approvals being as high as 62%. Loan recoveries of principal installments for the four years ended 1976 aggregated $1.18 million, while arrears of principal installments remaining overdue stood at $531,000 or 6.5% of loans outstanding.

An analysis of sub-loan operations on the basis of source of funds shows that sub-loans from CDB funds have been the mainstay of the DFC's loan portfolio, forming about 68% of the cumulative loans to December 31, 1976. However, commencing 1975, loans, approvals, and disbursements from CIDA funds made available for development and working capital loans, have been steadily increasing. As of the end of 1976, sub-loans from CIDA and the DFC's own funds formed 13.2% and 10.7%, respectively, of the total loans, while those issued out of UK grants for small farmers development, banana drought scheme, etc., formed 10.8%.

In cases where sub-loans satisfy the parameters of amount, adequacy of security, purpose, etc., stipulated under various CDB loan agreements, they are classified as CDB sub-loans, while those which fall outside these limits, mostly for refinancing, working capital, etc., are funded from CIDA, UK grants, or DFC's own resources. Such loans are often granted as parallel lines of credit, either to the same borrowers to supplement a main CDB funded project, or as an independent loan. As such loans also satisfy the norms of security, they are classified as commercial loans. Separate loan cards for each sub-loan from different funding sources are maintained.

Loans generally below $3,000, which do not have the required standard of collateral but are granted for development as well as working capital, or for crop loans to small farmers, tenent cultivators, forest workers and fishermen, are generally grouped as non-commercial loans. As of the end of 1976, there were about 250 commercial loans for approximately $7.13 million, while non-commercial loans were about 900 for $1.01 million.

An analysis of the spread of loan benefits, on the basis of districts, reveals that 70% of loans approved are spread among three out of the six districts, viz., Belize, Stann Creek, and Orange Walk in the north (mainly sugar cane areas), while Toledo (rice-growing district) has received the lowest, total loans being $602,000. Promotional efforts, with active assistance from the Government, are called for to even out the development benefits over a period of time.

A classification of loan approvals by purpose, shows that loans to agriculture, including agro-based industries, at $9.61 million, form 65.2% of total loans; while those to industry and tourism rank equally in importance, at 12.6% and 12.7% respectively. If loans to agro-based industries, such as forest lumber, animal feeds, etc., at $0.60 million, are also classified as industry, such loans would form 18.9% of the total.

Assistance to sugar cane equipment and sugar cane development, totalling $2.38 million, is the most important component of agricultural financing, closely followed by bananas, at $1.81 million, while livestock assistance amounts to $1.42 million.

The DFC has been developing a strategy of lending for agriculture through co-operative societies, farmers associations, and farmer groups and, through this approach, it aims to build up not only appropriate credit disciplines among the constituent members but also to widen the spread of loan benefits. The bulk of its sugar development loans has been routed through the Cane Farmers Association and its branches, to its members, with built-in safeguards such as a maximum loan limit of $3,000 per member, collective mortgage rights over leased land, and cultivation licenses, and also authorisation ot Belize Sugar Industries Limited to deduct loan installments from sale proceeds. However, in practice, loan arrears have mounted because of prior deductions to satisfy claims of commercial banks, which have established parallel lines of credit to cane farmers for crop loans and other purposes. Likewise, loans for banana development are tied up with the guarantee and co-ordinated efforts of the Banana Growers Association. Most of the loans for fisheries have also been channelled through fishery co-operative societies linked with marketing and/or processing projects.

The issue of crop loans covers mainly rice and corn, and the co-operation of the Marketing Board is solicited wherever possible, both for distribution of inputs and for marketing. The administration of the Small-Farmer Lending Programme and of other non-commercial loans has recently been strengthened by bringing them under the control of a Small Farmers Loan Officer supported by six Field Supervisors stationed one at each district, to function as contact points. However, the DFC's efforts to secure the co-operation of the Government's agricultural staff, have not yet succeeded, although the Government is subsidising, in part, the administrative costs of the Small Farmers Loan Programme.

The industrial group of loans outstanding as of the end of 1976, at $3.77 million, was spread among 121 loans, of which manufacturing was the largest element, as compared with services and tourism sectors. Lack of enthusiasm and the general diffidence of local entrepreneurs, coupled with absence of assured markets, were responsible for the slowing down of demand for industrial loans. With a view to creating enthusiasm and encouragement among the investing public, both national and international, the DFC inaugurated in 1976 an investment promotion unit as an essential adjunct to its development activities. The Government has also given encouragement by meeting the cost of a special Officer for this purpose. Presently, this Office is housed at the DFC's branch at Belize City.

The DFC has recently opened a housing window as a part of its industrial wing, for dealing with housing projects. It has also built up capabilities by appointing a Building Inspector and Housing Officer. As of the end of 1976, the DFC had approved 38 loans for $620,350. of which five loans for $73,778 have been disbursed. Though the DFC has been approved by the CDB as an intermediary under its secondary mortgage scheme, no amounts have been reimbursed. Meanwhile, it is extending interim finance out of its own funds to build up mortgages. The DFC expects a rapid increase in their business over the years.

Loan Appraisals and Approvals

Though loan procedures leading to loan approvals by the Board of Directors have improved over the years, considerable streamlining is still called for in disbursement, project supervision, follow-up of loan delinquencies, and other areas of loan administeration.

Loan applications relating to projects contain scanty information.

The Project Officers acquire most of the required information on interviewing applicants, but essential financial particulars regarding assets, liabilities, income, etc., are seldom obtained. Borrowers are not asked to furnish details of their financial position nor is such information verified, when acquired.

While appraisal reports relating to agricultural projects show details of project phasing, with investment and operational costs, and income flow year by year for the entire project cycle, those pertaining to industrial projects do not show such details. Consequently:

(1) Borrower's contribution can neither be timed rationally nor monitored by Project Supervisors or by the loan administration unit.

(2) Requests for rephasing of repayment of loans cannot be dealt with in a rational manner.

(3) Project Supervisors and those responsible for loan administration are unable to ascertain reasons for failure of projects.

Prior to March 1976, the Board had delegated to the managing committee, consisting of the General Manager, Accountant and Head of the Agricultural/Industrial Division, powers to approve loans up to $25,000. However, commencing March 1976, this delegated authority was withdrawn. Consequently, all loans are presently being apporved by the Board of Directors, after they are considered by the management.

The loan papers summarizing the results of appraisal, and detailing terms and conditions subject to which loans are recommended for approval, show adequate information to make rational decisions. However, evidence of Board approvals, detailing terms and conditions of loans and details of security, are not placed systematically on the borrowers' files. As more than one loan (in some cases three or four loans) is approved for diverse purposes to the same borrower from different sources of funds (DFC, CDB, CIDA, UK) and at various stages of project implementation, it is important that borrowers' files should enable operating staff to keep track of essential data such as:

(1) Authority of approval.

(2) The particulars of loans finally approved at any one time, with funding sources.

(3) Details of security finally accepted, their valuation, source, etc.

(4) Insurance cover over assets and/or borrower.

(5) Observation of other safeguards needing special documentation, etc.

The Board had given blanket authority to management to increase loans already approved to the extent of 15%, under the head "contingencies" to meet inflation of project costs, and also to rephase repayment schedules. However, while acting under this authority, management had not always ensured that the increased loan limits were justified in terms of the debt servicing ability of client.

The DFC's action in so utilizing the 15% increase in loans has resulted in overdrawing funds from the CDB in several cases. While, in the case of projects below $100,000, such increases could be authorised by the FIO; in the case of those above this limit, the unilateral application of the DFC's Board sanction without the CDB's concurrence, appears to be irregular; this has resulted in an over-run of disbursements by the CDB for committed projects.

The management in certain cases is observed to have varied the terms and conditions of loans approved by the Board, particularly regarding security requirements.

At present, essential safeguards for obtaining documents suitably amended to cover subsequent increases in loan limits or upstamping documents, etc., are not ensured in all cases; more particularly, there are several lapses in obtaining insurance cover on assets covered by loans, and on those forming security for the DFC.

Security

Though the policy enunciated by the Board calls for observance of 133% loan-security ratio, there is an increasing tendency to violate this policy in practice. In October 1975, the Board modified its security policy for industrial loans below $15,000, so that the loan-security ratio could be a 100% in such cases. The stipulated loan cancellation insurance policy normally required for such loans is not obtained.

This dilution of the loan-security ratio has to be viewed in the context of the nature of security generally accepted as cover, increasing arrears in interest payments, and laxity in observance of some important safeguards to protect the DFC's interests.

In a good many cases, the landed property accepted as security is leased from the Government. Even forest exploitation rights and location tickets are assigned values to an extent which cannot be justified as prudent. The DFC had already experienced the unpleasant results of such practices. Increasingly, management appears to permit overvaluation, and the upstamping of already executed documents to cover requests for additional loans, or the enhancement of project costs under the head "contingencies".

Disbursement

There is room for improving disbursement procedures of loans against evidence of expenditure by borrowers. Though the CDB had permitted the DFC to withhold forwarding receipts evidencing prime expenditure, while claiming reimbursements from the CDB, it cannot be construed to mean that the DFC could make cash payments to borrowers without asking for proof of expenses actually incurred, and without retaining in their own files some such evidence where appropriate.

While disbursing student loans, interest until the period when repayment sharts is deducted outright from the loan amount approved, and only the balance is made available to the student. This practice defeats the basic purpose of such lending.

Project Supervision and Follow-up

The DFC had developed, over the years, staff capabilities both on agricultural and industrial wings, not only to appraise projects but also to supervise them. There are three agricultural Project Officers, each covering two districts, to supervise about 300 commercial loans; i.e., approximately 100 borrowers per supervisor. In the industrial wing, there is one industrial Project Officer to supervise more than 100 projects.

A study of the follow-up procudures reveals that improvements need to be made in the frequency and quality of project supervision.

Supervision reports do not often reveal special problems nor discuss the borrower's contributions to projects. Project follow-up through visits are infrequent and the manner of reporting is not standardised. The project visit reports should always be placed in the relative borrower's file, and frequency of supervision should be monitored by maintaining appropriate records.

Loan Recovery

There is total absence of a system to deal with loans in arrears. There is no co-ordination or work program for monitoring and collection of arrears among the accounting section, loan administration unit, and field staff.

In the absence of proper data regarding arrears, an in-depth study regarding their purpose, age classification, etc., has not been possible. In fact, the DFC has not been able to furnish information on its loan arrears situation as of the end of each year. Consequently, the reports of the Board of Directors, and audited financial statements, throw no light on this important aspect of the DFC's working.

During 1976, the DFC has made provision for losses in seven loans aggregating $112,882, as bad debts. In addition, it has built up a general fund for loan losses, of $110,228.

Books and Accounts

Commencing January 1977, the DFC has started mechanising its accounts, and a start has been made with the sub-loan cards and general ledger control accounts.

The DFC's Auditor has made certain suggestions for improvement of accounting systems and also for internal control measures. The different areas of weaknesses and shortcomings were identified during the examination and these were discussed in detail with the Accountant and with the management of the DFC.

The method of maintaining and building up records for loan arrears through a demand, collection, and arrears register, and of constantly monitoring the arrears position, has been explained to the Accountant. All these improvements will have to be introduced, as early as possible, in the interest of DFC's overall efficiency.

Staff

The DFC has established a satisfactory organizational structure supported by qualified staff. Presently, there are 46 employees on its roll. Lines of authority have been established, and duties and responsibilities of functional departments and supporting staff have been spelt out.

The General Manager, who is the Chief Executive Officer, is supported by the Assistant Manager and Heads of Departments; and important decisions on operational matters are often taken with due consultation. From the beginning, the DFC has been paying careful attention to the recruitment and training of appropriate levels of staff, although the Government's insistency that its salary structure be in alignment with that of other statutory organisations, is presenting difficulties for the DFC in retaining the services of experienced personnel.

Co-ordination of functions and lines of communications between departments is being established, with recorded memoranda and frequent staff meetings. The tact and enthusiasm of the General Manager have played no mean part in the building up of a satisfactory administrative structure in the DFC.

As mentioned earlier, the staff capabilities of the industrial wing need strengthening, and a loan extension cell needs to be built up to give active support and guidance to borrowers, to help them keep books of accounts, and to develop techniques of inventory control, costing, etc.

## CONCLUSION

The reorganisation of the DFC, Belize, opened a new chapter in the institutional development in Belize, for dispensation of supervised credit to a wide cross-section of the farming community, notably tenants and subsistence farmers, and also to growth-oriented development projects. During the short span of four years, it made commendable progress in deploying resources of $13.17 million from donor contries and agencies such as CDB, UK, CIDA, CARE, etc., to match its growth-oriented lending programs, and in so doing it has established good rapport with the Government.

Despite the high cost of retailing credit, it has attempted to bring about a greater spread of loan benefits, by lending through farmers and commodity associations, co-operatives, farmers groups, etc. It is continuing to explore credit unions and is reaching out to wider cross-sections of small farmers by having contact offices in each district, presently functioning as a base for its Field Officers.

Appreciating the need for constant improvement in the systems, procedures, and operating policies, the DFC has been constantly developing staff capabilities through training programs.

However, in the context of the sizeable potential for development in Belize, vis-a-vis the high land-population ratio, serious responsibilities are cast on it to measure up to the needs of a situation expected to emerge through a planned policy of economic development. In evaluating the DFC, this long-term perspective has been kept in mind and it appears that the DFC has a dependable organizational structure, and staff capabilities which could be developed over a period of time through sustained efforts.

There are, however, many areas of an operational nature that call for early remedial action, so that its overall efficiency and methods of operation could be improved.

## 2. Role in Project

The DFC's in these nations are expected to participate in restructuring, drawing on the experience and models produced in St. Lucia and St. Vincent. The degree and nature of such restructuring will, however, be determined during the first year of the project by the governments of those nations.

They, in response to offers of assistance made by the CDB, are expected to begin reviews of their condition and to prepare preliminary plans for DFC alteration. CDB T. A. personnel will be made available to them for general advice and assistance. They will also be kept informed of development on St. Lucia and St. Vincent, so as to draw upon those operations for guidance, and to be able to anticipate the technical, legal and financial problems which may influence their restructuring. Prior to the end of the first year of the project, the CDB will entertain requests for more intensive assistance to these DFC's, and will schedule that assistance over the life of the project.

## V. TECHNICAL REQUIREMENTS

### A. CDB Loan Supervision Unit (LSU)

#### 1. Existing Capacity

Two professionals currently make up the entire staff of the LSU. Their work load, which includes loan monitoring, assistance to individual DFC's, and general analysis and reporting on loan related matters, occupies the bulk of their time. Although time allotments for assistance to individual DFC's would enable the officers to devote some time to this project, it is clear that the officers could not devote nearly enough of their time to comply with project requirements.

## 2. Additional Resources Required

The Loan Supervision Unit will require two additional staff members, as well as external technical assistance and the necessary financial resources, to carry out its function.

### Personnel

The CDB will require two additional staff members: a Bank Training Specialist and a Bank Administration Specialist; to support the process of restructuring the DFC's. The individuals recruited are expected to be experienced and capable professionals in the field of banking, with extensive knowledge of financial markets in the Eastern Caribbean. If possible, they should have backgrounds in the design and start-up of bank operations.

The salary outlays for these staff members are expected to total US $105,000 for the project, or US $15,000 per year for each specialist.

### Travel

The two new staff members will be required to travel extensively to the LDCs during the process of DFC restructuring. The majority of these trips will take place during the first year of the project, as the restructuring design is developed and the new structures are implemented. The detailed description of the travel costs is given below:

| First Year | (US $) | |
|---|---|---|
| St. Lucia/St. Vincent | | |
| Air travel 24 round trips @ $50 | $ 1,200 | |
| Ground transportation - taxi | 300 | |
| Per diem 48 days @ $50 | 4,000 | |
| Sub-total | $ 5,500 | |
| | | |
| Other LDCs | | |
| Air travel 52 round trips @ $50 | $ 2,600 | |
| Ground transportation - taxi | 500 | |
| Per diem 144 days @ $50 | 7,200 | |
| Sub-total | $10,300 | Total $16,000 |

| Second Year | (US $) | |
|---|---|---|
| Air travel 60 round trips @ $50 | $ 3,000 | |
| Ground transportation - taxi | 500 | |
| Per diem 120 days @ $50 | 6,000 | |
| Sub-total | $ 9,500 | Total $10,000 |

| Third Year | | |
|---|---|---|
| Air travel 90 round trips @ $50 | $ 4,500 | |
| Ground transportation - taxi | 500 | |
| Per diem 180 days @ $50 | 9,000 | |
| Sub-total | $14,000 | Total $14,000 |

| Fourth Year | | |
|---|---|---|
| At the same rate as third year for one half the year | | |
| Sub-total | $ 7,000 | Total $ 7,000 |

Total loan supervision staff travel for the DFC restructuring is estimated at $47,000.

Training

DFC personnel will attend a series of training courses, seminars and supervised instruction during the life of the project. Several of the courses will take place at sites outside of the Eastern Caribbean, and additional financial resources will be necessary for DFC officers to attend these courses. Project costs related to the training programs are US $37,500 for the basic course, and US $49,400 for advanced management training, for a total cost of $87,000. Details are shown below:

| Basic Course | (US $) |
|---|---|
| Air Travel 8 round trips @ $50 | $ 400 |
| Ground transporation - taxi | 100 |
| Per diem 240 days @ $50 | 12,000 |
| Sub-total | $12,500 |

This training will be given each year for the first three years.

| Advanced Training | |
|---|---|
| Air Travel 8 round trips @ $400 | $ 3,200 |
| Ground transportation - taxi | 1,500 |
| Cost of courses $1,000 per participant | 8,000 |
| Per diem 240 days @ $50 | 12,000 |
| Sub-total | $24,700 |

This course will be given during the second and third year of the project.

Other specialized courses and on the job training will be given. They will be given at the DFCs, and the travel costs related to these activities are subsumed under travel costs for the additional loan supervision unit staff and technical assistance.

Equipment

Equipment required by the loan supervision unit will consist of various pieces of office furnishings and machines in the DFCs to be used by staff members during the restructuring process. The cost of this equipment is expected to total US $13,000.

Technical Assistance

Technical assistance will be required by the Loan Supervision Unit during the design, implementation, and initial operations of the restructured DFCs. One full time bank advisor will work with the Loan Supervision Officer and other LSU staff over a period of two years. Intermittently, banking specialists will be brought in on a short term basis, as needs arise. Costs related to this technical assistance are outlined below.

| Consulting fees | (US $) |
|---|---|
| 660 man days at US $300 per day inclusive of overhead | $198,000 |
| International air travel 16 round trips @ $400 | 6,400 |
| Caribbean travel 80 round trips @ $50 | 4,000 |
| Per diem 380 days @ $50 | 19,000 |
| Living allowance and miscellaneous operations | 40,000 |
| Total | $267,400 |

Total cost of technical assistance of the Loan Supervision Unit will be US $268,000.

## B. The St. Lucia DFCs

### 1. Existing Capacity

The St. Lucia DFC's have sufficient staff to participate in the merger and restructuring design. The assistance of AID provided T. A., and of loan supervision personnel of the CDB, should be sufficient to permit St. Lucia to carry out the operation described.

### 2. Additional Resources Required

None.

## C. The St. Vincent DFCs

### 1. Existing Capacity

The St. Vincent DFC, the National Commercial Bank, and the government possess sufficient resources to participate in the operation. The T. A. available from the Loan Supervision Unit of the CDB is considered adequate to fully supplement St. Vincent's resources.

### 2. Additional Resources Required

None

## D. The DFC's of Antigua, Grenada, Montserrat, St. Kitts, Belize

### 1. Existing Capacity

The DFC's and governments are considered to have sufficient resources to initiate reviews of their own operations and to make preliminary decisions regarding the nature and degree of DFC restructuring anticipated.

The DFC's and government will enter into discussions with the CDB personnel early in the project, and those that wish to pursue restructuring will receive general advice and assistance from the loan supervision unit.

After commitments for restructuring have been made, the CDB will negotiate a level of technical assistance to each participating DFC. Provisions for TA under this project are deemed adequate to respond to assistance requirements.

### 2. Additional Resources Required

None.

# VI. BUDGET REQUIREMENTS

TABLE 27

BUDGET

By Activity, Agency and Year
U. S. $000

| CARIBBEAN DEVELOPMENT BANK | | YEARS 1 AID | 1 CDB | 2 AID | 2 CDB | 3 AID | 3 CDB | 4 AID | 4 CDB | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|
| CREDIT FUND | | - | - | 1,333.0 | - | 1,333.0 | - | 1,334.0 | - | 5,000.0 |
| DFC PROGRAM | | 221.0 | 15.0 | 166.0 | 15.0 | 66.0 | 15.0 | 17.0 | 5.0 | 520.0 |
| -Personnel | | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 15.0 | 10.0 | 5.0 | 105.0 |
| -Travel | | 16.0 | - | 10.0 | - | 14.0 | - | 7.0 | - | 47.0 |
| -Training | | 13.0 | - | 37.0 | - | 37.0 | - | - | - | 87.0 |
| -Equipment | | 13.0 | - | - | - | - | - | - | - | 13.0 |
| -T/A | | 164.0 | - | 104.0 | - | - | - | - | - | 268.0 |
| CDB Total | $ | 221.0 | 15.0 | 1,499.0 | 15.0 | 1,399.0 | 15.0 | 1,351.0 | 5.0 | 5,520.0 |

TABLE 28

CREDIT FUND

BUDGET BY ELEMENT & YEAR
(U.S. $000)

| ELEMENT | | 1 | 2 | 3 | 4 | TOTAL |
|---|---|---|---|---|---|---|
| Credit Fund | | - | 1,333 | 1,333 | 1,334 | 5,000 |
| Total | $ | - | 1,333 | 1,333 | 1,334 | 5,000 |

SOURCE OF FUNDS
(U.S. $000)

| ELEMENT | | AID GRANT | AID LOAN | TOTAL AID | CDB | PROGRAM TOTAL |
|---|---|---|---|---|---|---|
| Credit Fund | | - | 5,000 | - | - | 5,000 |
| Total | $ | - | 5,000 | - | - | 5,000 |

TABLE 29

DFC RESTRUCTURING

BUDGET BY ELEMENT
(U.S. $000)

| ELEMENT | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | TOTAL |
|---|---|---|---|---|---|
| Personnel | 30 | 30 | 30 | 15 | 105 |
| Travel | 16 | 10 | 14 | 7 | 47 |
| Training | 13 | 37 | 37 | - | 87 |
| Equipment | 13 | - | - | - | 13 |
| Technical Assistance | 164 | 104 | - | - | 260 |
| Total $ | 236 | 181 | 81 | 22 | 520 |

TABLE 30

DFC RESTRUCTURING

SOURCE OF FUNDS
(U.S. $000)

| ELEMENT | AID GRANT | AID LOAN | AID TOTAL | CDB | PROGRAM TOTAL |
|---|---|---|---|---|---|
| Personnel | 55 | - | 55 | 50 | 105 |
| Travel | 47 | - | 47 | - | 47 |
| Training | 87 | - | 87 | - | 87 |
| Equipment | 13 | - | 13 | - | 13 |
| Technical Assistance | 268 | - | 268 | - | 268 |
| Total $ | 470 | - | 470 | 50 | 520 |

TABLE 31

TECHNICAL ASSISTANCE BUDGET

THE DFC PROGRAM

| | MAN MONTHS | A.I.D. GRANT (U.S. $000) |
|---|---|---|
| DFC Organizational Change | 4 | 36 |
| CDB & DFC Policy Adjustments | 4 | 36 |
| DFC Administrative and Procedural Change | 4 | 36 |
| Training | 18 | 160 |
| Total | 30 | $ 268 |

## VII DFC IMPLEMENTATION PLAN

### A. Implementation Description

#### 1. Initial Planning

The CDB management and staff will propose a general program to DFC management and LDC government authorities and secure their agreement to analyze restructuring possibilities.

a. Preparation of the DFC Proposal by the CDB.
The Industrial Division and the Loan Supervision Unit acting as the Technical arm of CDB management, will collaborate with the DFCs of St. Lucia and St. Vincent in the preparation of a concrete proposal for modifications in their structure and operations.

b. Discussions with DFC Authorities.
A CDB representative will make personal visits to the DFC authorities and the local governments of St. Lucia and St. Vincent, to present a proposal for restructuring. After approval in principal, the DFCs will begin any preparatory work which they can undertake prior to the initiation of the program.

#### 2. Preliminary Design of DFC Restructuring

The Loan Supervision Unit will work together with DFC management to develop a design for future DFC operation in St. Lucia and St. Vincent.

a. Analysis of St. Lucia and St. Vincent DFCs.
The Loan Supervision Division will work with the respective DFC General Managers and staffs to develop and collect the data required to make a thorough analysis of both DFC operations and the economic environment in which the DFC operates. The CDB Team must have access to all files and records pertaining to DFC operations.

b. Restructuring Design Prepared.
The analyst will analyize current DFC operations, current and projected demand for credit, and the current and projected supply of loanable funds, structure, policies, procedures, staff, and lending practices. The Loan Supervision officers and the General Managers of St. Lucia and St. Vincent will be actively involved in the preparation of a final report containing a detailed plan and schedule for implementation.

c. Reports and Recommendations Submitted.
The final report and restructuring plan will be submitted to the President of the CDB for approval. Subsequently a designated CDB representative will negotiate directly with the respective DFC Boards of Directors and relevant government ministers to secure approval to procede with the implementation of the plan for transition from their present state to full service banking institutions. The plan should contain provisions for interim control of the DFC by those who will be charged with the restructuring.

3. Program Formulation and Resource Commitment
The CDB will work with the St. Lucia and St. Vincent DFCs to agree on a detailed plan including resources allocated by each participant, technical assistance to be offered by the CDB, and the terms and conditions under which the restructuring will be carried out.

a. Creation of Institutions.
In the case of St. Lucia, it is anticipated that the existing DFCs will be merged into a single unit, and that the new DFC will expand its lending options. In St. Vincent, it is anticipated that the existing DFCs will be merged into the operations of the National Commercial bank. The model for eventual DFC operation will be agreed upon by all parties.

b. Selection of Program Targets.
These targets will consist of discrete steps in the conversion of the DFCs to full service institutions according to the model and the completion dates for the various elements of the program.

c. Personnel Committed.
The CDB and DFC will determine, given the nature of the program, the DFC professional staff which will be committed to the process of restructuring the DFCs. The qualifications and scope of work of each staff member as well as the relationship between CDB and DFC personnel during the process, will be established.

d. Technical Assistance Committed.
The CDB and the DFCs will determine the nature and degree of Technical Assistance to be supplied by the CDB to the DFCs as the actual restructuring is taking place. The responsibilities of the CDB Technical Assistance staff will be clearly defined in a scope of work for each.

e. Negotiations with Governments.
Upon completion of a formal plan for restructuring, with the approval of the President of the CDB and the individual Board of Directors of each DFC, the program will be negotiated between CDB management and

the relevant governments. Agreement will be reached permitting the process of restructuring to begin and committing the required resources.

4. Personnel Recruitment

Two specialists in bank administration will be recruited by the CDB management for assignment in accounting the process of CDF modification and restructuring.

a. Bank Training Officer.

The individual recruited for this position will have experience in the management of commercial bank institutions, and in the training of senior staff for these institutions. He will have knowledge of the Eastern Caribbean business community and financial institutions, and will be sensitive to the political realities of the program. He will be assigned to the Loan Supervision Unit, and his duties will involve the development and implementation of formalized course and on-the-job training of DFC loan officers, to develop skills commensurate with expanded DFC portfolios.

b. Bank Administration Officers.

The individual recruited for this position will have experience in the management and commercial bank institutions, particularly in the administration of loan operations including appraisal and disbursement, and in the selection, training, and supervision of senior staff. He will have knowledge of the Eastern Caribbean business and financial environment, and be sensitive to the deviate political nature of the program. He will be assigned to the Loan Supervision Unit to help develop the standardized procedures and controls for portfolio elements to be added to the DFC operations, and to work with the Bank Training Officer in training DFC loan officers in the management of these new portfolio lines.

5. Restructuring Process

Organizational adjustments will be completed, procedural changes instituted, legal requirements met, and personnel qualifications and performance level set in the St. Lucia and St. Vincent DFC. New lending practices and policies will be initiated, and the DFCs will divest themselves of non-banking functions. The Loan Supervision Unit will work with the DFC management in this process, adhering to the schedule defined during negotiations with LDC governments.

a. Organization Structure

The DFCs in St. Lucia and St. Vincent will undergo radical transformation by merging a number of separate institutions, expansion of the merged institutions' portfolios and by elimination of all non-bank functions. An organizational structure will be designed, with job responsibilities and authority outlined. The transformation will take place in a series of fully integrated steps, each to be completed before the other is begun.

b. Operating Procedures.
The DFCs and the Loan Supervision Unit working groups will develop standardized procedures for DFC operations. Initially, the procedures covering current fixed capital lending will be modified to improve DFC performance. Procedures will be developed for the management of each new portfolio item.

c. Personnel Qualificiations and Performance.
Job description and standards will be prepared by the working groups, based on the new organizational structure. An essential element for improvement of DFC performance will be the recruitment of qualified professionals with clearly defined job responsibilities and performance criteria to fill these positions. Salaries will be established at a level competitive with the private sector.

d. Initiation of Lending Practices.
The St. Lucia and St. Vincent DFCs will initiate each new lending activity after installation of the structure, policy, procedure, and staff to support it. The CDB Loan Supervision Unit will continue to work with the DFCs, at their request, in the tuning of the new structure, and in upgrading the skills of DFC personnel.

6. <u>Adjust Lending Policies</u>
Concurrently with Activity 5, the CDB and the participating DFCs will adjust their policies to remove certain lending restrictions, allowing the DFCs to enlarge their portfolios and respond more rapidly to changes in the market for funds.

a. CDB Policy Adjustement.
The Loan Supervision Unit will work with CDB management to revise current CDB loan practices. These may include the elimination of ceilings on the size of sub-loans and net worth criteria, the setting of flexible collateral requirements based on project projections, and the expansion of permissable loan portfolio items.

b. DFC Policy Adjustements.
The St. Lucia and St. Vincent DFC managements, working with the CDB and being aware at all times of the direction of CDB policy adjustements, will set policies which complement those of the CDB.

7. <u>Preparation of Program Extension</u>
Concurrently with the restructuring of the St. Lucia and St. Vincent DFCs, the CDB management will complete discussions with other DFCs

and LDC governments in the region to prepare the basis for assistance in restructuring their DFCs.

a. Discussion with other DFCs.
The CDB management will initiate discussions with the DFC management and local government authorities on the remaining 6 LDCs. A presentation similar to that for St. Lucia and St. Vincent will be made, for collaboration with the DFCs in analysis of current DFC operations and the design of a restructuring plan. Agreement will be secured from each participant, in terms of resource commitments and conditions under which the analysis and design phase will be conducted.

b. Prepare basis for restructuring assistance.
The analysis and design of DFC restructuring will be carried out in each DFC so that the design is based upon the conditions under which it operates. The Loan Supervision Unit will work with the DFC management in the design of structure, policies, and procedures, to be implemented in steps reflecting the normal capacity of an institution to adapt to changes. The plans will be presented to the CDB and LDC government authorities.

8. <u>Begin Program in other DFCs</u>
Utilizing the experience gained and models evolved in St. Lucia and St. Vincent, and the analysis performed by the Loan Supervision Unit and the DFC Management, a program for DFC restructuring will be implemented in each LDC.

9. <u>Training</u>
Three levels of training will be given to the DFC personnel during the project. Courses prepared and conducted by personnel from the CDB Loan Supervision Unit and AID sponsored technical assistance consultants, will focus on basic banking skills, expanded DFC functions, and advanced bank management. All DFC senior staff will be encouraged to participate in the training, with specialized needs identified as the project progresses.

a. Basic Course
A basic course will be given to all professional cadres. This course will include familiarization with basic banking skills, but these will be presented within a set of policies and procedures designed for standardization of DFC operations.

The course will be prepared by CDB loan supervision personnel and AID provided consultants. Course materials will be derived in part from the evaluation and recommendations made by the CDB/DFC teams after reviews of the St. Lucia and St. Vincent DFC's. The main technical elements in the course will deal with loan application processing, appraisal techniques, preparation and use of management information systems, reporting, audits and audit reports, collections, cash flow analysis, control functions, customer confirmation, form design and control, investments, market analysis and marketing, personnel programs, programming and project planning.

The course will be given initially to key officers, then be held intermittantly for all other operations personnel. All DFCs will be encouraged routinely to send new employees to this course.

b. Specialized courses.
The second training elements consist of specialized short courses to be initiated in preparation for expansion of DFC functions. The first, dealing with working capital, lending, and contract, would after, this type of course will be provided periodically in preparation for planned events. The initial course will deal with analysis of applicant accounts, use of letters of credit, banking, collections, interest rates, appraisals, commercial paper, credit ratings, credit confirmations, exchange rates, maintenance of value, lease financing, number controls, responsibility accounting, and risk evaluation.

c. Advanced Management Training.
Advanced management courses will be offered at foreign institutes periodically during the project life. These will be selected as needs are identified.

10. Technical Assistance
During the period, an AID sponsored technical asssistance consultant specialist in banking operations will work with the CDB Loan Supervision Officer during the development and implementation of the restructuring plan for the DFCs.

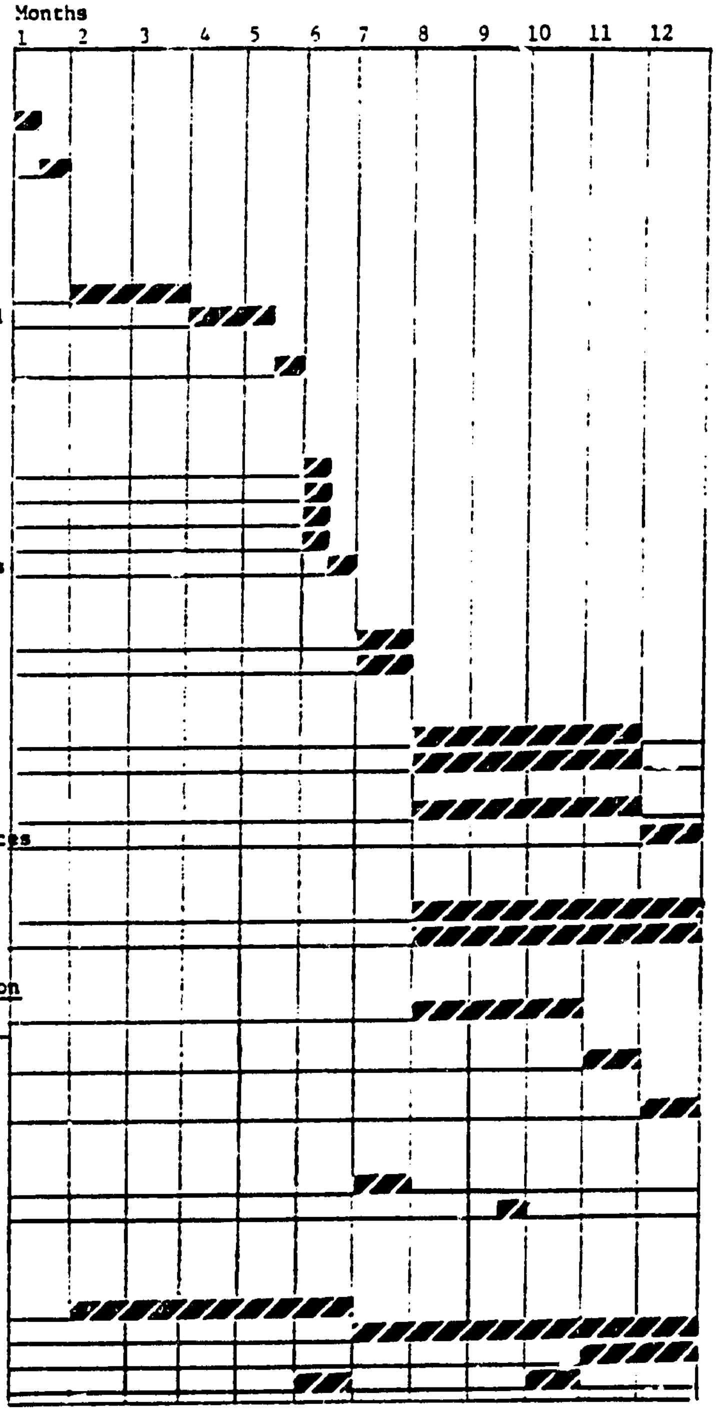
a. Design of DFC Restructuring.
During the drafting of a preliminary proposal for DFC restructuring, the consultant will work with the Loan Supervision Unit. Upon approval by the authorities concerned he will assist in the design and implementation of a transitional organization for control of the DFCs until they assume operation according to the full service function model.

b. Restructuring Process.
During the transitional stage of DFC operation, the consultant will work closely with both the St. Lucia and St. Vincent DFC managements and the Loan Supervision Unit, as new lending instruments and procedures are implemented. He will be closely involved in this process.

c. Program Extension.
Using standardized systems and procedures developed from the St. Lucia and St. Vincent experiences, the consultant will work with the Loan Supervision Unit and the respective DFC managements, as a technical resource base during working group discussions, to solve restructuring problems as they arise.

d. Training Design.
The consultant will work with the newly recruited Bank Training Specialist and Bank Administration Specialist of the Loan Supervision Unit to prepare a series of practical courses in bank administration, derived in part from the St. Lucia and St. Vincent evaluations and recommendations. These courses will be supplemented by specialized short courses corresponding to major events during the transition to expanded DFC operation. As the DFC operations become more sophisticated, the consultant will assist in the preparation of material, and in a scheduling for advanced bank management courses to be offered at foreign institutions.

B. IMPLEMENTATION SCHEDULE - THE DFC PROGRAM- Year 1




1. Initial Planning
   a. Preparation of DFC proposal by CDB
   b. Discussions with DFC Authorities

2. Preliminary Design of DFC Restructuring
   a. Analysis of St. Lucia, St. Vincent DFC's
   b. Restructuring Design prepared
   c. Reports and Recommendations Submitted

3. Program Formulation and Resource Commitments
   a. Creation of Institutions
   b. Selection of Program Targets
   c. Personnel Committee
   d. T.A. Committed
   e. Negotiations with governments

4. Personnel Recruitment
   a. Bank Training Officer
   b. Bank Administation Officer

5. Restructuring Process
   a. Organization Structure
   b. Operating Procedures
   c. Personnel qualifications and performance
   d. Initiation of lending practices

6. Adjust Lending Policies
   a. CDB Policy Adjustment
   b. DFC Policy Adjustment

7. Preparation of Program Extension
   a. Discussion with other DFC's
   b. Prepare basis for restructuring assistance

8. Begin Program in Other DFC's

9. Training
   a. Basic Course
   b. Specialized Course
   c. Advanced Management Training

10. Technical Assistance
   a. Design of DFC restructuring
   b. Restructuring Process
   c. Program Extension
   d. Training Design

Implementation Schedule - THE DFC PROGRAM - Years 2 thru 4

1. Initial Planning
   a. Preparation of DFC Proposal by CDB
   b. Discussions with DFC Authorities

2. Preliminary Design of DFC Restructuring
   a. Analysis of St. Lucia, St. Vincent DFC's
   b. Restructuring Design prepared
   c. Reports and Recommendations Submitted

3. Program Formulation and Resource Commit
   a. Creation of Institutions
   b. Selection of program targets
   c. Personnel Committee
   d. T.A. Committee
   e. Negotiations with governments

4. Personnel Recruitment
   a. Bank Training Officer
   b. Bank Administration Officer

5. Restructuring Process
   a. Organization Structure
   b. Operating Procedures
   c. Personnel qualifications and performance
   d. Initiation of lending practices

6. Adjust Lending Policies
   a. CDB Policy Adjustment
   b. DFC Policy Adjustment

7. Preparation of Program Extension
   a. Discussion with other DFCs
   b. Prepare basis for restructuring assistance

8. Begin Program in Other DFCs

9. Training
   a. Basic Course
   b. Specialized course
   c. Advanced Management Training

10. Technical Assistance
   a. Design of DFC restructuring
   b. Restructuring Process
   c. Program Extension
   d. Training Design