

---

**MEMORANDUM TO  
USAID/BELIZE, USE OF  
COMMERCIAL BANK DISCOUNT  
FUND BY BBCI AND BCCI**

---

*Bureau for Private Enterprise  
U.S. Agency for International Development*

*Prepared by:*

*J. Shoraka*

*Sponsored by:*

*Financial Markets project  
Project Number: 940-2005  
Prime Contractor: Arthur Young*

*October, 1986*

MEMORANDUM

To: USAID/Belize, Peter Lopera  
From: Jalil Shoraka/Consultant   
Date: October 23, 1986  
Subject: Use of Commercial Bank Discount Fund (CBDF) by Belize Bank of Commerce and Industry (BBCI) and Belize Chamber of Commerce and Industry (BCCI)

I. Background

Mr. Eric Zallman (AID/W) in his recent visit to Belize (August 18-23) reviewed the CBDF and prepared a memorandum suggesting alternative courses of action for activating the remaining amount of the CBDF--either by reprogramming or deob/reob before the end of the calendar year. The memorandum also states that there are two possible uses of the fund which need to be explored: First, the BCCI had advised that they had \$10 million bankable and eligible projects and, second, Belize Chamber of Commerce and Industry (BCCI) advised that they were trying to organize a private sector finance company to provide medium-term financing for investment projects. The purpose of this assignment is to review the status of the applications to be presented by BBCI for CBDF financing, and to provide an assessment of BBCI and BCCI as possible intermediaries for expeditious utilization of CBDF.

II. Findings

A. Evaluation of BBCI Loan Applications

During the week of October 20, the consultant met with the Governor of the Central Bank and held a number of working sessions and telephone conversations with Messrs. Searle and Griffith of BBCI. The list of the applications and supporting papers, as presented to BBCI, was reviewed as was the status of BBCI with regard to its business plan and acquisition of the Belize branch of Royal Bank of Canada. The following is the summary of findings.

1. BBCI has divided the loan applications into two categories: First, the loan applications for which they have full documentation and could be processed as soon as the bank begins operations; and second, the projects which are on the drawing board, and presented to BBCI as inquiries. Given the length of time that would be needed to process the second category of projects and given the CBDF time constraint, it is suggested that, for the purpose of this exercise, we should contain ourselves to the first category of projects.

2. The first category of projects consists of eleven loan applications with a total loan request of BZ\$6,219,000. However, this list includes six applications for a total of BZ\$4,171,000 which are already approved and in most cases disbursed by other commercial banks as follows:

<u>Name of Company</u>	<u>Amount (BZ\$000)</u>	<u>Banks Which Provided Financing</u>
a. The Villa Hotel	1,250	Bank of Nova Scotia*
b. Greengold Ltd. (bananas)	938**	Barclays Bank
c. Sagitun Banana Co.	235	DFC/Sale of Cowpen farm/Bank of Nova Scotia
d. Trio Ltd.	1,000*	LAAD/Barclays
e. Banana Grower's Coop.	248	Barclays Bank
f. Cowpen Farm Ltd.	500	Barclays Bank***

---

\* The Central Bank and the Bank of Nova Scotia are negotiating the guarantee formula.

\*\*DFC and GOB have agreed to allow banks to hold collateral on the farms without advance payment for the land. This reduced the financing requirement.

\*\*\* This farm was previously owned by Manual and Tony Zabaneh on a 50/50 basis. It was recently sold to Cowpen Farms, Ltd. which according to Mr. Griffith, is owned by M. Dunker and Eugene Zabaneh.

3. The remaining projects in the first category consist of five applications with a total amount of loan request of BZ\$2,048,000 as follows:

<u>Applicant</u>	<u>Project</u>	<u>Amount of Loan (BZ\$000)</u>
a. Chaa Creek Cottages*	Hotel expansion	150
b. Hotel Maya	Hotel expansion	225
c. Eden Real Estate Co.	Conversion of cinema to office/hotel	600
d. Belize Soap and Detergent	Soap manufacturing	900
e. Jaime Alonso**	Butane gas depot	173
TOTAL		<u>2,048</u>

4. There is a new revelation in the BBCI situation:

--The bank, in its effort to acquire the assets of the Belize branch of the Royal Bank of Canada (RBC) had to raise US\$2.5 million.

--BBCI now informs us that they have negotiated with a group of foreign investors (the identity is not revealed but said to be from the Far East) has agreed to invest US\$2.5 million in the equity of the bank. The transaction would dilute the equity of the existing Belizean/American shareholders to fifteen percent and would leave the controlling interest with the new foreign investors whose identity and business plans are not yet known. There are plans to ultimately increase the share of the existing shareholders to twenty percent.

--The Central Bank needs full disclosure of the new foreign investors before they could approve the transaction. Issues of management and deposit guarantee insurance are not yet resolved, therefore the foreign investors could help to resolve these two issues if they were associated with a banking group. Otherwise, the Central Bank would need to scrutinize the motives, character, business background, business plan, and management capabilities of the new investors.

---

\* Also submitted to Barclays Bank

\*\*Not foreign exchange earner

--BBCI officials have decided not to begin operation until RBC transaction is completed which they estimate to take place before the end of the year. Therefore, they have delayed the target date for the opening of the bank to January 1, 1987.

#### B. Belize Chamber of Commerce and Industry

The concept of a private finance company was first presented to USAID/B by Kent McField of BCCI when Eric Zallman and this consultant met with BCCI officials on August 22nd. During this assignment the consultant held a review session with Kent McField and made the following observations:

--The concept has remained a concept and is still on the drawing board.

--The concept has been discussed with a number of business leaders and government officials, many of whom have agreed with the concept and have agreed to support and assist in the implementation.

--The concept could not be presented to the New York Conference of the Belizean/American community, because they were told by their attorney that such solicitation might be in violation of the FTC regulations.

--Kent McField suggested the following course of action and time table:

- . To incorporate the company by the end of October.
- . To complete business plan by the end of November. (He asked AID for technical assistance for preparation of the business plan.)
- . To present the concept at the Miami Belizean-American Conference, November 16-20.
- . To present the business plan to a selected committee of Belizean-American businessmen for approval (first week of December).
- . To raise at least BZ\$500,000 by the end of this calendar year.

#### III. Conclusion

Uncertainty continues to hang over the BBCI and the BCCI's private finance company. If BBCI successfully completes the

RBC transaction, the new foreign investors would have control over BBCI and the new situation would need to be re-examined. (Under the original scenario it was envisioned that BBCI would be the first Belizean bank primarily interested in investment projects.) The present situation of BCCI and BBCI, therefore, does not warrant keeping the CBDF facility open for eventual utilization. However, there are the following points to be considered:

1. During October two loan applications were presented by the commercial banks and approved by the Central Bank and USAID for a total of BZ\$1.6 million. Also, there were two additional loans added to the existing CBDF projects amounting to BZ\$165,000. These approvals would bring the total CBDF disbursement to BZ\$3,719,000 (US\$1,859,500).

2. I interviewed the officials of the commercial banks and the Central Bank with regard to the projects which were being processed in the CBDF pipeline. The following projects have better than 70 percent chance of becoming qualified under the existing CBDF facility within 6-9 months:

Company	Project	Amount	Bank
a) Caribe Farms Industries, Ltd.	Produce & export tomatoes and other produce	750,000	Royal Bank of Canada
b) Chaa Creek Cottage	Tourism	150,000	BBCI/ Barclays
c) Hotel Maya	Hotel expansion	225,000	BBCI
d) F. Redmond	Farm expansion	150,000	Barclays
e) Belize Soap & Detergent	Soap manufacturing	900,000	BBCI
f) Henry Young	Tourism	800,000	Bank of Nova Scotia
g) General Shrimp, Ltd.	Shrimp	<u>500,000</u>	Bank of Nova Scotia
Total		\$3,475,000	

3. There is a noticeable change in the attitude of the officials of the Central Bank as well as the commercial banks toward CBDF facility. They have become more positive and active in identifying and processing loan applications under CBDF. The

commercial banks, however, have a common problem -- a very high liquidity -- adversely affecting the utilization of CBDF. The commercial bank officials believe that the liquidity will decrease starting in mid-December when citrus producers will begin to draw on their working capital. The Central Bank officials state, on the other hand, that if the liquidity of the banking system is not reduced to an acceptable level by the end of the year, they would have to decrease the interest rate in order to activate the economy.

4. USAID/Belize has a new Export and Investment Credit Project for 1987. It is estimated that the project papers will be completed by the end of the first quarter of 1987, and initiated for the second half of 1987. This means that if CBDF is deobligated before June 30, 1987, USAID/Belize would be left with no credit facility and could not discuss credit availability with prospective investors. It would also need to inform the commercial banks to call off all credit discussions on the projects in the CBDF pipeline.

Given all the facts as detailed in this Memorandum, the consultant recommends that the CBDF facility be extended to cover the period until June 30, 1987, or until such time when the new Export and Investment Credit Project is approved and put in place.