
A STUDY OF THE FINANCIAL SYSTEM OF BELIZE

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INTRODUCTION

Assignment

In March 1986 the consultant was asked by USAID Mission, Belize, to conduct a study of the financial system of Belize.

The purpose of this study is to assess the financial sector; to review the economic context of the financial market; to review the fiscal, legal and regulatory environment within which the financial sector operates; to assess the role of the financial intermediaries; and to determine recommendations conducive to the efficiency of the financial system in mobilizing savings and channeling them to the productive sectors.

Methodology

The assignment was conducted over a six-week period, most of which was spent in-country. During the visit the consultant met with Sir H.E.C. Cain, the Financial Secretary, and held discussions with Mr. Alen Slusher, the Governor of the Central Bank; Mr. Cirilo Manung, Managing Director of the Development Finance Corporation; Mr. Hector Premaratne, Inspector of Banks and Financial Institutions; Mr. Graeme Justice, Research Director of the Central Bank; Mr. Sylvan Roberts, Director of the Central Statistical Office; Mr. Dennis Jones, Executive Director of the Belize Credit Union League; Mr. Henry Usher, Secretary General of Holy Redeemer Credit Union; general managers of four commercial banks; and a number of prominent business leaders.

In conducting this study the consultant was assisted by Mr. Douglas Willmore and Miss Deborah James, of the USAID Mission staff. Valuable assistance was also rendered by Mr. Manuel Sosa, an attorney/consultant who compiled and prepared a summary of all laws and regulations governing the financial system--presented here in Appendix 2. Finally, the consultant would like to place on record his appreciation for the cooperation, help and support which was generously given to him by the USAID Mission Director, Mr. Neboysha Brashich, and his assistant, Mr. Peter Lapera.

The consultant made every effort to collect and collate as much information as available in order to present his findings in a proper perspective and to determine recommendations with underlying rationale. It is, however, necessary to mention that there still remain some gaps in the data. For one, the National Account data for the years 1981 through 1985 are currently being reexamined and are expected to be materially different from the data presented in the past.

Organization of the Report

This report is prepared in two chapters. Chapter I reviews the economic context of the financial market, nature and size of the Belize economy, major economic sectors, extent of external influences on the economy, and the Government's plan for diversification. It also reviews the size of the financial market and recent developments with respect to monetary policies and operations during the last two years.

Chapter II reviews the financial system of Belize and explains the role of the Central Bank and other financial intermediaries. Each sub-chapter deals with a specific group of the financial intermediary, its source of funds and means of deployment, and presents recommendations for improving the operational efficiency of the financial institutions and their responsiveness to the economic development by effectively mobilizing funds and channeling them to productive sectors.

Recommendations presented in this report address the following issues:

Central Bank of Belize:

Administration of policies which would result in more appropriate allocation of credit to priority sectors.

The commercial banks:

- a) Expansion of branch operations,
- b) Development of money market,
- c) Development of lease-purchase mechanism,
- d) Development of project identification and evaluation unit,
- e) Reconsideration of security and track record requirements.

Development Finance Corporation:

- a) Mobilization of savings,
- b) Development of project identification and evaluation,
- c) Expansion and diversification of operation,
- d) Privatization.

Credit unions:

A study to be conducted to determine the need for organizational and technical support, funding requirements and depository status.

International Development Finance Institutions:

Need for some coordination in order to reduce project development cost and avoid duplication of work and finances.

Appendix 1 briefly explains the international financial institutions which influence the Belize financial market, while Appendix 2 provides a summary of all laws and regulations governing the financial system.

1

I. ECONOMIC CONTEXT OF THE FINANCIAL MARKET OF BELIZE

A. Nature and Size of the Economy

Belize is a small economy with a population of 166,000, and a gross domestic product of Bz\$330 million (US\$165 million) for the year 1985. Economic activity in Belize is based on agriculture which accounts for about 23 percent of real GDP and which is the source of about 70 percent of exports, followed by the services sector, particularly trade and tourism which comprises approximately 17 percent of the GDP; and the manufacturing sector, which accounts for approximately 14 percent of the GDP.

It is estimated that the real GDP grew at an average annual rate of 5 percent in the 1970's, which was largely due to the expansion in agriculture, manufacturing and construction sectors of the economy. At the turn of the decade, however, the economic growth began to deteriorate showing a decline of 4 percent in 1981-1982, an annual real growth of approximately one percent for 1983 and 1984, and an estimated zero real growth for 1985.

Belize is an open economy, being an essentially passive agent, directly affected and reacting to outside influences. The real income has been heavily influenced by developments in the external sector. The rate of export to GDP averaged 42.2 percent during 1983-1985 and the ratio of import to GDP averaged 65.2 percent during the same period, which demonstrates the extent of the external influence on Belize economy. See Table 1.

Table 1. Extent of External Influence

	<u>1983</u>	<u>1984</u>	<u>1985</u>
Gross Domestic Product*	308.3	322.3	325.5
Domestic Export	130.3	145.7	127.7
Import for Domestic Consumption	198.4	219.7	205.1
Export as Percent of GDP	42.3	45.2	39.2
Import as Percent of GDP	64.3	68.2	63.0

Source: Central Statistical Office, Ministry of Economic Development.

* Central Statistical Office is re-examining the National Account numbers for 1981 to 1985. It is believed that GDP for 1981-1985 may be substantially different from past reports. The numbers shown in this report are the most recent estimates at the time of this report--May 1986.

Furthermore, Belize's economy is highly specialized. Sugar and citrus form the income-generating basis of the economy accounting for approximately 21 percent of the GDP and 47 percent of foreign exchange earnings. See Table 2.

Table 2. Extent of Specialization - 1985

	<u>% of GDP</u>	<u>% of Foreign Exchange Earnings</u>
Sugar	13.9	31.1
Citrus	7.3	16.4
Other Agricultural Products	2.8	6.3
Fish Products	4.1	9.2
Garments	9.5	21.1

Source: Estimated, based on information provided by the Central Bank of Belize and Central Statistical Office.

The authorities have little influence over these economic activities because the prices and volume of output are largely independent of domestic demand; prices are determined in the world markets and the volume of output thus depends on domestic cost and supply conditions relative to these given prices. The only sectors in which the prices and output are determined by domestic demand are non-traded goods and services sectors of the economy. Similarly, the authorities have little influence on the rate of price inflation once they are committed to a fixed exchange rate policy.

In order to avoid heavy reliance on a limited range of economic activities particularly on sugar and sugar related products, the government is encouraging and assisting the private sector in the development of diversified economic activities: the production and export of citrus concentrate valued at Bz\$13.7 million in 1983, was increased to Bz\$24.2 million in 1985, an increase of 76.6 percent; banana production and export was increased from Bz\$4.2 million in 1983 to Bz\$6.5 million in 1985, an increase of 54.8 percent; and garment export increased from Bz\$16.8 million in 1983 to Bz\$31.4 million in 1985, an increase of 86.9 percent; while due to decreases in both price and volume, sugar export decreased from Bz\$68.3 million in 1983 to Bz\$45.8 million in 1985, a decrease of 32.9 percent.

In pursuit of diversification, the Government has recently announced that an agro-industrial project was undertaken by a group of U.S. business interests including Coca Cola Food Company (Minute Maid). The project calls for a direct investment of Bz\$120 million over an implementation period of 15 years, and includes processing machinery and equipments.

B. Size of the Financial Market and Recent Developments

Table 3 shows the summary accounts of the financial systems. In December of 1985 total net domestic credit stood at Bz\$229.3 million, consisting of Bz\$68.3 million credit to the public sector and Bz\$176.3 million to the private sector. At the same time, total liabilities to the private sector stood at Bz\$192.3 million consisting of Bz\$49.4 in currency in circulation and demand deposits and Bz\$127.7 in saving and time deposits. Commercial banks are the main source of domestic credit (approximately 60 percent) followed by the Central Bank (credit to non-financial public--20 percent), Development Finance Corporation (10 percent) and credit union (8 percent).

During 1981-1983 the net domestic credit of the financial system increased by 17.1 percent in 1981, 16.1 percent in 1982 and 13.9 percent in 1983, while the liabilities to the private sectors increased by an annual average of 9.5 percent during the same period. This resulted in net decline in international reserve of the Central Bank by Bz\$14 million from 1980 to 1983 and by a further Bz\$14 million in 1984, as well as an increase in foreign indebtedness of the commercial banks and the Development Finance Corporation. Faced with the problem of rapid domestic credit expansion, and widening of balance of payment current account, which increased from 2 percent of GDP in 1981 to 46 percent in 1984, the Government entered into a standby arrangement with the International Monetary Fund for SDR 7,125,000 in mid-1984 and implemented a number of monetary policies during the first quarter of 1985 in order to curb excess credit creation and improve the balance of payment situation:

- In January of 1985 the minimum lending rate was increased by two percentage points from 12 to 14.
- At the same time, the commercial banks' savings and term deposit interest rates and Treasury Bill rates were increased by three percent.

Table 3. Summary Accounts of the Financial System

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>(In millions of Belize dollars)</u>					
<u>Net foreign assets</u>	<u>2.6</u>	<u>-13.3</u>	<u>-18.0</u>	<u>-25.8</u>	<u>-13.4</u>
<u>Net domestic credit</u>	<u>163.8</u>	<u>190.2</u>	<u>216.7</u>	<u>238.8</u>	<u>229.3</u>
Credit to public sector (net)	38.8	51.0	69.2	75.0	68.3
Central Government	(33.4)	(49.9)	(73.4)	(82.4)	(90.4)
Rest of public sector	(5.4)	(1.1)	(-4.2)	(-7.4)	(-22.1)
Credit to private sector	139.9	153.9	165.5	185.0	176.3
Other	-14.9	-14.7	-18.0	-21.2	-15.3
<u>Medium-and long-term foreign liabilities</u>	<u>21.5</u>	<u>24.0</u>	<u>26.4</u>	<u>20.7</u>	<u>23.6</u>
<u>Liabilities to private sector</u>	<u>144.9</u>	<u>152.9</u>	<u>172.3</u>	<u>192.3</u>	<u>192.3</u>
Money	41.5	40.4	42.5	52.5	49.4
Quasi-money	92.8	101.3	116.1	124.6	127.7
Other	10.6	11.2	13.7	15.2	15.2
<u>(Percent of GDP)</u>					
Net domestic credit	52.3	64.3	70.3	74.1	70.4
Credit to public sector	12.4	17.2	22.4	23.3	20.2
Credit to private sector	44.7	52.0	53.7	57.4	54.2
Liabilities to private sector	46.3	51.7	55.9	59.7	59.1
Money	(13.3)	(13.6)	(13.8)	(16.3)	(15.2)
Quasi-money	(29.6)	(34.2)	(37.6)	(38.6)	(39.2)

Source: Central Bank of Belize

- In March 1985 reserve requirement of the commercial banks was increased from 7 percent to 9 percent, and the liquid asset rate was increased from 20 percent to 30 percent.
- The commercial banks were also informed that the Central Bank would not consider any loan facility for commercial banks "unless it was determined that failure to approve a loan would seriously harm the banking system".

As a result of these measures the growth in domestic credit decreased to 10.2 percent in 1984, and turned to a negative growth of -4.0 percent in 1985, while liabilities to the private sector (including demand, saving and time deposits) increased by 11.6 percent in 1984 and remained unchanged in 1985. Credit to the private sector grew at a rate of 11.8 percent in 1984 and declined to a negative growth of -4.7 percent in 1985, see Table 4. Also, the net foreign position of the financial systems which was deteriorating during the years 1981 to 1984, showed a significant improvement in 1985--an increase of Bz\$12.4 million, or 48 percent.

Table 4. Annual Changes in Credit by Origin,
Destination, and Financing 1/

(In millions of Belize dollars)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985(Prel.)</u>
<u>Total Credit</u>	<u>23.9</u>	<u>26.4</u>	<u>26.5</u>	<u>22.1</u>	<u>-9.5</u>
<u>Origin</u>					
Central Bank	10.6	6.6	7.0	14.2	-11.9
Commercial banks	8.3	15.7	15.5	11.0	-12.5
Nonbank intermediaries	4.7	3.4	2.9	-2.4	+7.2
Intersystem float	0.3	0.7	1.1	-0.7	+7.7
<u>Destination</u>					
Public sector (net)	9.0	12.2	18.2	5.8	-6.7
Central Government (net)	(9.1)	(16.5)	(23.5)	(9.0)	(8.0)
Rest of public sector (net)	(-0.1)	(-4.3)	(-5.3)	(-3.2)	(-14.7)
Private sector	21.8	14.0	11.6	19.5	-8.7
Official capital and reserves (increase -)	-0.2	-1.5	-1.2	1.4	3.1
Unclassified assets (net) <u>2/</u>	-6.7	1.7	-2.1	-4.6	2.8
<u>Financing</u>					
Net foreign assets (increase-)	7.2	15.9	4.7	7.8	-12.4
Foreign liabilities (medium- and long-term)	3.2	2.5	2.4	-5.7	2.9
Liabilities to private sector	13.5	8.0	19.4	20.0	-

Source: Central Bank of Belize.

1/ Includes Central Bank, commercial banks, Development Finance Corporation, Government Savings Bank, and credit unions.

2/ Includes intersystem float.

II. FINANCIAL SYSTEM

A. Overview

The financial system of Belize is in the process of development. A chain of financial institutions intermediate between the main clients of the system: households, local businesses, multinational firms, Government and financial and non-financial statutory bodies.

Commercial banks mobilize funds through deposit takings and act as the pivot of financial operations, having two-way transactions with almost all the entities in the system. They provide the means for the private sector to hold interest-bearing deposits and their link with the Central Bank provides the stability in the system. The commercial banks are the major provider of credit to the private sector. Credit unions provide limited financial services to small savers and occasional and small borrowers. The Development Finance Corporation (DFC) provides medium and long-term financing for the agricultural, industrial and construction sectors, and the National Development Foundation of Belize provides credit and technical assistance to small-scale ventures. In addition, a number of international financial institutions such as the Latin American Agricultural Development Bank, the Caribbean Development Bank, the Commonwealth Development Corporation and USAID, through the Caribbean Basin Initiative, provide, either directly or indirectly through other financial intermediaries, financial facilities for development purposes.

Nevertheless the system has not been conducive to balanced economic development. The commercial banks, which are the main holders of the financial assets of the economy, provide mainly overdraft facilities and short-term loans and credit to the private sector. Track-record and security requirements of the commercial banks are excessively restrictive. In an economy in which agriculture produces more than 23 percent of GDP and 47 percent of foreign exchange earnings, farms are seldom accepted as the sole collateral for long-term financing. Mortgage lending is almost non-existent; the commercial banks' outstanding loan for building construction at the end of 1984 stood at Bz\$15 million, which included both mortgage loans and short-term construction financing; The Reconstruction and Development Corporation, which was established in order to provide financing for low income housing, extended 14 loans totalling less than Bz\$100,000 in 1985; The National Building Society, the only major building society established under Building Society Ordinance of 1920, issued mortgages totalling only Bz\$180,000 by the end of September 1984.

It is therefore imperative to note that the real constraint of the financial system is felt more with regard to the deployment of funds than with the mobilization of savings. Funds needed for priority sectors of the economy should not be raised by monetizing the development program, but first and to the extent possible, by proper allocation of financial resources by means of sound monetary policies and the reorientation of selected segments of the financial system. As we learned from the lessons of the 1970's, monetization of development programs could only lead to inflation.

B. Financial Institutions

The financial institutions of Belize consist of the Central Bank of Belize; branches of three major international commercial banks namely Barclays Bank PLC, Bank of Nova Scotia, and Royal Bank of Canada; a domestic commercial bank, namely Atlantic Bank Ltd.; The Development Finance Corporation; twenty-two active credit unions; international and regional development institutions which provide direct lending; and a number of small domestic institutions such as The National Development Foundation of Belize (NDFB), building societies, and The Reconstruction and Development Corporation. A discussion on the major financial institutions and some suggestions as to their reorientation follows:

1. Central Bank of Belize

Table 5 shows the summary accounts of the Central Bank for 1981 to 1985. Central Bank of Belize was established in January of 1982 with a paid-up capital of Bz\$10 million. The Bank replaced the Monetary Authority as issuer of currency with full authority over the monetary and credit policies of the country. At the end of 1985 the total capital and reserves of the Bank stood at Bz\$15.2 million. The Central Bank is the main source of domestic finance for the government. The Bank's credit to the central government increased from Bz\$29.8 million in 1982 to Bz\$60.2 million in 1985.

The objectives of the bank, as the Act prescribes, are to foster monetary stability especially with regard to stability of the exchange rate, and to promote credit and exchange conditions conducive to the growth of the economy. The Central Bank is responsible for five interdependent functions:

- a) The management of the national currency;
- b) The conduct of monetary policy;
- c) The role of banker to commercial banks;

Table 5. Summary Accounts of the Central Bank
(In millions of Belize dollars)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985(Prel.)</u>
<u>Net domestic assets</u>	<u>3.0</u>	<u>6.2</u>	<u>16.3</u>	<u>32.4</u>	<u>20.5</u>
<u>Credit to nonfinancial public sector (net)</u>	22.7	29.8	36.7	54.0	48.7
<u>Central Government (net)</u>	(22.7)	(29.8)	(36.7)	(58.5)	(60.2)
Loans and advances	/12.6/	/10.2/	/18.0/	/19.7/	/29.3/
Treasury bills	/15.5/	/19.6/	/18.7/	/38.8/	/34.7/
Deposits (-)	/-5.4/	/--/	/--/	/--/	/-3.8/
Rest of the public sector	(--)	(--)	(--)	(-4.5)	(-11.5)
<u>Net position of commercial banks</u>	-9.3	-12.7	-9.6	-7.7	-15.6
Advances	(--)	(--)	(--)	(7.8)	(0.0)
Deposits (-)	(-9.3)	(-12.7)	(-9.6)	(-15.5)	(-15.6)
<u>Official capital and surplus</u>	-10.5	-11.5	-12.2	-11.7	-15.2
<u>Other assets (net) (residual)</u>	0.1	0.6	1.4	-2.2	2.6
<u>International reserves (net)</u>	<u>20.3</u>	<u>19.3</u>	<u>10.1</u>	<u>-4.3</u>	<u>7.5</u>
<u>Assets</u>	<u>20.7</u>	<u>19.7</u>	<u>18.6</u>	<u>12.2</u>	<u>29.6</u>
<u>Liabilities</u>	<u>-0.4</u>	<u>-0.4</u>	<u>-8.5</u>	<u>-16.5</u>	<u>-22.1</u>
<u>Currency issue</u>	<u>23.3</u>	<u>25.5</u>	<u>26.4</u>	<u>28.1</u>	<u>28.0</u>

Source: Central Bank of Belize.

- d) The role of banker to the Government; and
- e) The regulations of the financial system.

With regard to the monetary policies, the bank can adopt numerous measures for influencing savings, demand for financial assets, demand for domestic credit and allocation of domestic credit. It can:

- i. Provide rediscount facilities for the commercial banks, and establish rediscount rates.
- ii. Provide loans and advances to the commercial banks.
- iii. Change the reserve requirement of the commercial banks within the range of 5 to 20 percent.
- iv. Change the liquid asset requirements of the financial institution within the range of 20 to 35 percent.
- v. Determine the maximum or minimum rates of interest and other charges which banks impose on specific types of loans and credits, and pay on deposits.
- vi. Prescribe, in respect of loans and advances: (a) the purposes for which they may be granted; (b) maximum maturity; (c) maximum amount of security which shall be required; (d) limits for any particular categories of loans advances or investments; and (e) allocation of credit facilities and target dates for implementation.
- vii. Issue orders to control volume, terms and conditions of credit.

The Central Bank is therefore vested with all authorities to pursue macroeconomic policy; providing cash to the system, offering banking facilities to the Government, the statutory corporations and to commercial banks, managing the country's foreign exchange reserve, and supervising the commercial banks.

The Central Bank has used some of the monetary instruments available to it, especially those directly affecting monetary aggregates, on a regular basis. As mentioned earlier, during the first quarter of 1985, in order to curb credit expansion, the Central Bank increased the commercial bank reserve and liquid asset requirements; increased the minimum lending rate and increased commercial banks savings and time deposit interest rates. These measures were very effective, producing the desired results--improvement in the balance of payments, and contraction of domestic credit.

Some suggestions

There is, however, another important aspect of domestic credit which needs to be considered: allocations of domestic credit. In large economies, market forces play an important role in guiding investment and credit and since the external sector has little influence on large economies, investment moves among different sectors of the economy for higher returns, without affecting the balance of payment and/or causing undue inflations. On the other hand, in a small and open economy such as Belize, productions and income are basically determined by domestic supply conditions and world demand situations. Demand-led expansion would cause inflations and/or balance of payment deficit, and therefore Belize's economy is better served by supply-led expansion.

In order to meet this objective, the monetary policy should first insure a stable monetary environment, and second, channel savings toward productive investment. Now that the first part of monetary policy has been successfully implemented, it is timely to re-examine the allocation of domestic credit and to ensure that sufficient credit is channeled to priority sectors such as export or import substitute industries, agriculture and low cost housing.

Article 45 and 46(1) of the Central Bank Act of 1982 provides the tool for the control of allocation of domestic credit. According to these articles, the Central Bank can, with respect to loans, advances, and investment, prescribe the purpose, maximum maturities, and maximum amount of security to be required, and margin on letters of credit. It can also issue orders to control the volume terms and conditions of credit including installment credit extended through loans, advances or investment by all financial institutions.

At present when the liquidity position of the commercial banks is at peak, it is most timely for the Central Bank to prescribe an investment allocation guideline to ensure that the sustainable increase of credit is allocated consistently with national development priorities. Table 6 shows the liquidity positions of the commercial banks at the end of the third quarter of 1985. The commercial banks' liquid assets, as shown in the table, were in excess of the statutory requirement by Bz\$12.4 million, or 30 percent, in September of 1984; and by Bz\$9.3 million, or 17.5 percent, in September of 1985.

2. Commercial Banks

The commercial banking system consists of branches of three major international banking institutions: Barclays International, Bank of Nova Scotia, and Royal Bank of Canada; and one domestic bank, Atlantic Bank, which is 50 percent owned by foreign shareholders. In addition, a license has been issued for a new commercial bank, Belize Bank of Commerce and Industry which is scheduled to start operations in May 1986.

Table 6. Liquidity Position of Commercial Banks

<u>Bz\$M</u>	<u>Outstanding Position</u>			<u>Change In Quarter</u>	<u>Change In Year</u>
	<u>1984 Q3</u>	<u>1985 Q2</u>	<u>1985 Q3</u>		
Approved Liquid Assets	41.2	48.6	53.2	+4.6	+12.0
Vault Cash	4.0	3.8	3.6	-0.2	-0.4
Balances with Central Bank	8.6	12.8	14.2	+1.4	+5.6
Money at call and foreign balances (due within 90 days)	8.1	15.4	13.3	-2.1	+5.2
Treasury bills maturing in not more than 90 days	13.2	9.4	16.2	+6.8	+3.0
Other Approved Assets	7.3	7.2	5.9	-1.3	-1.4
Required Liquid Assets	28.8	43.8	43.9	+0.1	+15.1
Required Cash Reserves	7.2	13.2	13.2	-	+6.0
+ Excess/Deficiency Liquid Assets	+12.4	+4.8	+9.3	+4.5	-3.1
+ Excess/Deficiency Cash Reserves	+1.3	-0.6	+1.6	+2.2	+0.3

Source: Central Bank of Belize

The growth of commercial bank deposits has been modest during the past five years. Total demand, time and savings deposits of the commercial banks increased from approximately Bz\$100 million in 1981 to Bz\$136 million in 1985, an increase of 36 percent. Commercial banks, except Atlantic Bank, which is incorporated in Belize, are not required to issue financial statements. They submit weekly and monthly reports to the Central Bank, which in turn publishes quarterly consolidated reports for all commercial banks. Table 7 shows the consolidated account of the commercial banks for 1981 through 1985.

The commercial banks are conservative in their lending policy. Their track record and security requirements are very restrictive and are not conducive to business development in Belize. Credit policies of the banks are made at the regional offices of the Banks (Toronto in the cases of Bank of Nova Scotia and Royal Bank of Canada, and Barbados in the case of Barclays Bank PLC). All loan applications exceeding certain amounts (believed to be Bz\$50,000) must be sent to the regional offices of the parent banks for approval. The banks generally require at least 150 percent mortgage security without considering future additions, before seriously considering a loan application. A borrower also needs a long favorable track-record before he can find his way through the system. This practice tends to keep the credit allocations among the old establishment. The banks do not have project evaluation facilities and the regional offices of the bank do not provide their branches with such services.

Table 8 shows the summary of the consolidated income statement of the commercial banks for the years 1983 through 1985. At the end of 1985 the "assigned" capital and reserves of all commercial banks amounted to Bz\$11.9 million, e.g. 8.2 percent of the banks' domestic credit and 8.0 percent of their liabilities to the private sector. During 1983-1984 the banks' profits before taxes averaged 28.3 percent, and profits transferred abroad averaged 16 percent of the "assigned" capital and reserves.

Some suggestions

The following reorientations on the part of the commercial banks with respect to their policies and practices are suggested:

- a) Commercial banks are the only depository institutions in the country, as the credit unions cannot pay interest on deposits, and thus do not receive a significant amount of deposits. And yet, the total number of bank branches throughout the country is less than 15 and dwindling. This is not conducive to mobilization of savings. The commercial banks should play a more active role in encouraging saving, and their presence in the community should have a positive effect in this effort.

Table 7. Summary Account of the Commercial Banks

(In millions of Belize dollars)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>Net foreign position</u>	-18.2	-33.2	-28.7	-22.0	-16.4
Assets	23.0	14.9	17.3	20.5	19.3
Liabilities (-)	-41.2	-48.1	-46.0	-42.5	-35.7
<u>Net claims on Central Bank</u>	12.6	16.5	13.2	11.6	20.0
Cash in vault	3.3	3.8	3.6	3.9	4.4
Reserve deposits	9.3	12.7	9.6	15.5	15.6
Advances (-)	--	--	--	-7.8	0.0
<u>Domestic credit</u>	<u>114.0</u>	<u>129.7</u>	<u>145.2</u>	<u>156.2</u>	<u>144.1</u>
Credit to nonfinancial public sector (net)	10.5	15.4	25.9	14.6	19.6
Central Government (net)	(6.5)	(15.7)	(31.4)	(18.8)	(30.2)
Loans and advances	/4.2/	/14.2/	/15.2/	/13.9/	/16.5/
Treasury bills	/2.5/	/2.0/	/16.6/	/5.4/	/14.6/
Deposits (-)	/-0.2/	/-0.5/	/-0.4/	/-0.5/	/-0.9/
Rest of public sector (net)	(4.0)	(-0.3)	(-5.5)	(-4.2)	/-10.6/
Credit to private sector	104.5	116.2	124.1	136.8	127.0
Other assets (net) (residual)	-1.0	-1.9	-4.8	4.8	-2.5
<u>Liabilities to private sector</u>	<u>108.4</u>	<u>113.0</u>	<u>129.7</u>	<u>145.8</u>	<u>147.7</u>
Demand deposits	21.5	18.7	19.7	28.0	25.8
Time deposits	50.6	59.3	70.4	72.9	78.5
Savings deposits	27.7	26.5	28.9	33.6	31.5
Capital and reserves	8.6	8.5	10.7	11.3	11.9

Source: Central Bank of Belize

Table 8. Commercial Banking. Summary Statement of Income

	<u>1983</u> Bz\$000	<u>1984</u> Bz\$000	<u>1985</u> Bz\$000
<u>Income</u>			
Interest on Loan and Advances	22,167	21,408	21,820
Fees and Commissions	2,863	3,428	3,801
Income on Overseas Operations	100	104	121
Other Income	<u>2,270</u>	<u>2,079</u>	<u>1,733</u>
Total Income from Operations	<u>27,400</u>	<u>27,019</u>	<u>27,475</u>
<u>Expenses</u>			
Interest Paid in Belize	11,525	9,566	12,838
Interest and Fees Paid Abroad	4,222	4,021	2,627
Depreciation	571	597	478
Staff Remuneration	4,438	4,937	5,332
Other Expenses	<u>3,172</u>	<u>4,276</u>	<u>3,554</u>
Total Expenses	<u>23,928</u>	<u>23,397</u>	<u>24,829</u>
Profit Before Taxes	3,472	3,622	2,647
Tax Paid	1,350	1,315	1,258
Profit Transferred Abroad	1,650	2,492	1,421
Retained Profit	582	(185)	406

- b) It is imperative in Belize's economy to develop a machinery which can undertake the tasks of project identification and evaluation. The commercial banks cannot separately undertake this task. However, they should support such an effort, if undertaken by another institution, by making serious efforts to provide finances for the projects which are identified and found economically feasible.
- c) The commercial banks need to reconsider their security and track-record requirements. 200 percent security, specially with property prices appraised by overly conservative bank officials, does not lend itself to the development of new business opportunities. A solution to this problem may be found by including the future value of the property after the new investment is made. Furthermore, the country and its' population are young and have new entrepreneurial attitudes and environments. The lending institutions should moderate their track-record requirements and should place more weight on the financial and economic feasibility of business proposals.
- d) Commercial banks should, with the assistance of the Central Bank and other authorities, take steps to develop a money market in Belize. This will facilitate movement of funds among all financial institutions and also between financial institutions and large trading and industrial firms. This will add greater sophistication and flexibility to the financial system.
- e) Commercial banks could also develop a mechanism to provide lease-purchase facilities for new small-scale industrial enterprises. This would, to some extent, solve the problem of loan security, and would make a substantial contribution to the development of Belize's infant industries.

3. Development Finance Corporation (DFC)

DFC was established in 1963 for the following purposes:

- a) To supply finance for the development of agriculture, forestry, fishing, industry, tourism, housing and public utilities; and
- b) To promote and facilitate domestic and foreign capital investment in Belize; and
- c) To undertake, promote and facilitate economic and financial studies as a guide to investment.

DFC has been providing financing for a range of agricultural, industrial, and educational activities. The agriculture and agro-industry, however, take up approximately 60 percent of the banks' resources. During the past two years the bank approved a total of 2,288 loan applications for a total amount of Bz\$12.8 million. Table 9 shows the break-down of the loans by sectors for 1984 and 1985:

Table 9. Value of Loan Approval by Sector
(in Bz\$'000)

	1984		1985	
	<u>No.</u>	<u>Value</u>	<u>No.</u>	<u>Value</u>
Agriculture and Agro-Industry	1,011	3,161	939	4,565
Industry	17	684	19	1,385
Tourism	10	346	9	1,198
Services	11	368	15	304
Student	17	155	27	75
Housing	<u>39</u>	<u>111</u>	<u>174</u>	<u>506</u>
Total	1,105	4,825	1,183	8,033

There is no particular pattern for the total amount of loans approved by the bank. The loan portfolio generally depends on the financial resources made available to the bank by the Government and/or the international financial institutions. For this reason, the total amount of loans disbursed has varied from Bz\$5.0 million in 1981 to Bz\$4.3 million in 1982, Bz\$8.7 million in 1983 and, as shown in Table 9, to Bz\$4.8 million in 1984 and Bz\$8.0 million in 1985.

DFC's main sources of finance are: (1) Commonwealth Development Corporation (CDC); (2) Caribbean Development Bank (CDB); (3) European Investment Bank (EIB); (4) USAID; and (5) The Belize Government. Loans are usually provided for specific purposes: in 1983 CDC advanced a loan of Bz\$13.9 million for sugar cane replantation (Bz\$7.5 million) and citrus replantation and rehabilitation (Bz\$6.4 million); in 1984 EIB approved a loan of Bz\$3.5 million to be used for small size industrial and tourism projects; in 1985 USAID provided the Housing Improvement Loan Program which has been partially used jointly by DFC and the credit unions.

DFC does not provide project identification services, and its project evaluation capability is limited. DFC received over 2,000 loan applications during 1985, and 1,183 loan applications were approved. The majority of the loans are for amounts less than Bz\$5,000 (approximately 65 percent), followed by loans of Bz\$5,000 to \$15,000 (15 percent). However, 35 percent of loans are for amount of Bz\$50,000 to \$200,000 followed by loans of Bz\$25,000 to \$50,000 (20 percent) and loans of Bz\$15,000 to \$25,000 (14 percent).

DFC has not yet published the statements of account for 1984 and 1985 and no recent portfolio assessment is available at this time. Table 10 shows the latest published statement of accounts for 1983, as well as the unaudited balance sheet for the year ending December 1984. It is believed that 1984-85 annual reports will be available in a month's time.

DFC has five branches each located in an agricultural and/or industrial region; Belize City, Corozal, Orange Walk, Punta Gorda, and Dangriga; each branch is staffed with a field supervisor and an assistant, and supported by staff from the main office in Belmopan during busy seasons and when the situation calls for technical support.

Some suggestions

The appropriateness of a financial institution in the financial system is gauged, among other things, by (1) its economic efficiency, (2) its ability to mobilize savings, (3) its ability to maintain financial stability, (4) its ability and willingness to promote entrepreneurship, and (5) its ability to avoid conflicts of interest. For Development Finance Corporation to become a viable participant in the financial system, it must meet the aforementioned tests.

While the DFC as a financial institution is well conceived and has been successful in providing medium and long term financing to the private sector, it needs to undertake some conceptual and operational changes:

a) Mobilization of savings.

DFC must be able to resort to the financial market for domestic resource mobilization. It could resort to institutional savings such as pension funds, inter-bank borrowing and issuing medium and long-term instruments such as certificates of deposit and bonds. DFC could also become a depository institution, mobilizing short-term funds for financing working capital needs of the development projects. However, the term transformations should be kept at the minimum in order to avoid the risk of illiquidity.

b) Project identification and evaluation.

It is imperative in Belize to develop a mechanization which can undertake the tasks of project identification and evaluation. At present, DFC is the only institution in the country which has the capability, though very limited, for performing this function. It is, therefore, necessary to set up a separate "unit" either within the DFC or attached to other institutions, such as Belize Export and Investment Promotion Unit, for undertaking this important task.

Table 10. Development Finance Corporation

	<u>Balance Sheet</u> (Bz\$'000)	
<u>Assets</u>	<u>1983</u>	<u>1984*</u>
Cash in Bank & Other Depositories	2,616	1,034
Loans Receivable	25,921	28,800
Loans to Government of Belize	952	960
Interest Receivable & Other Assets	3,343	4,011
Equity Investments	1,710	1,642
Fixed Assets	1,420	1,381
TOTAL ASSETS	<u>35,962</u>	<u>37,828</u>
 <u>Liabilities, Capital and Reserves</u>		
Accounts Payable and Accrued Charges	2,159	2,136
Provision for Pensions	344	393
Long-term Borrowed Funds	25,503	25,361
Total Liabilities	<u>28,006</u>	<u>27,890</u>
 <u>Capital & Reserves</u>		
Deferred Credit:		
Unrealized Foreign Exchange Gain	2,320	4,663
Reserve for Loan Losses	614	387
Grants	1,117	1,108
Capital Fund	3,905	3,780
Total Capital & Reserves	<u>7,956</u>	<u>9,938</u>
TOTAL LIABILITIES, CAPITAL & RESERVES	<u>35,962</u>	<u>37,828</u>

* Unaudited Report

The role of the project identification and evaluation "unit" should not be confined to the operational jurisdiction of DFC. It should also serve the other financial institutions, firstly because Belize is geographically a small country, and secondly because the scarce technical expertise would be most efficient and cost effective if centralized at one point.

c) Expansion and diversification of the operation.

Since the turn of the decade, the development financial institutions in the developing countries have faced financial difficulties, though with different degrees of severity. The basic problems of the development banks have been the lack of diversification in their sources of fund and their sources of income. Governments and the international financial institutions have been the main providers of funds and the spread of interest rate on long-term lending has been the main source of income. The difficulties developed when, for economic reasons, the explanation of which is beyond the scope of this report, the governments and the international financial institutions could no longer maintain the flow of funds to the development banks.

The Development Finance Corporation, however, has fared relatively well under similar circumstances, though its' total reliance on the government and the international financial institutions for funding, and on the spread of long-term lending for income, cast doubt on its future viability. It is, therefore, essential for DFC to diversify its sources of fund by mobilizing domestic resources, and also to seek economic efficiency which can be achieved by diversification of financial services and expansion of size of operation. Information and transaction costs, which are important elements in the total overhead cost of any financial institutions, are proportionately reduced by diversification and expansion of operations.

d) Privatization of DFC

DFC is publicly owned and operates under the aegis of a Ministry of the Government. It has a board of directors of seven members, some appointed from among the private sector. The main purpose of the Corporation is to provide medium and long term finances to the private sector for development projects. At the end of 1984, out of a total loan and equity portfolio of Bz\$35.4 million, only Bz\$0.96 million was loans to the government of Belize.

The government, however, has a dominating influence on the operations of the DFC: it appoints the management; establishes the pay scale; and provides all the funds made available to the DFC, either directly or indirectly by guaranteeing the loans provided by the international financial institutions. It is, therefore, possible that the government's influence and interventions in the past have occasionally undermined the feasibility factors of some development projects financed and implemented by the DFC.

Privatization of the DFC would eliminate a number of constraints which it is presently facing; most importantly it would bring into play the market forces, and allow DFC to compete with other financial institutions in mobilizing domestic resources and providing diversified financial services and improving its profitability situation in the process. It would also allow the DFC to attract the necessary expertise and engage them in a most cost effective manner.

Privatization of the DFC, however, should be undertaken with the utmost care and with due consideration to the political and financial ramifications of the program. There is no stock market in Belize and the private sector has not yet been sufficiently developed to provide the domestic financing necessary to buy, and continue to fund, a financial institution. There may also be resistance to sale to private foreign investors, even at minority positions, where it is feared that this would lead to loss of national control over the only major Belizean financial institute. The methodology of the privatization program, therefore, needs careful consideration and needs to address all the existing political and financial constraints.

4. The National Development Foundation (NDF)

NDF is a small private non-profit financial institution established in 1983 with AID assistance. The objective of NDF is to provide credit and technical assistance to small scale ventures in Belize. NDF is governed by a board of directors of 14 members and is managed by a staff of seven including a managing director and three field extension officers.

The Foundation's first loans were approved in April 1984. During the period April 1984 to March 1985, NDF approved over 200 loans with a total value of Bz\$600,000. Approved loans were for a range of small venture activities in production, processing and services. Loan term is generally 12 to 30 months at an interest

rate of one percent per month which has become a tradition for small loans in Belize. NDF, however, charges the amount of the interest up-front, thus increasing the real cost of the financing. NDF is lenient with respect to the security requirement, and generally accepts land and equipment as security on the basis of a one to one ratio with the loan sum.

The NDF's main source of funds is a USAID grant comprised of US\$178,000 towards the revolving loan fund and US\$266,200 for operational expenses over three years starting in September 1983. In addition, NDF recently entered into agreement with the Ministry of Natural Resources to administer small loans for pig raising under a USAID Livestock Project. NDF has also received a US\$180,000 grant from the Inter-American Foundation and has raised \$40,000 from other sources.

5. Credit Unions

Credit unions are important components of Belize's financial system. The total amount of credit extended by the credit unions increased from Bz\$10.8 million in 1980 to Bz\$19.3 million in 1985, an increase of 78.8 percent. The credit unions provide approximately 11 percent of the financial system's credit to the private sector.

38 credit unions are registered, but not all are active. The Belize Credit Union League has 21 associated credit unions representing 11,400 members. The League provides the credit unions with common services such as insurance services for loan protection and life insurance. The League also represents credit unions' interest to the Government and to regional associations such as the Caribbean Confederation of Credit Unions.

Credit unions raise funds through selling shares which by law can pay up to six percent in dividends. Credit unions can also accept deposits, but by law they cannot pay interest. Persons of common bonds can be members of a credit union; only members can borrow from credit unions and a person is not allowed to belong to more than one credit union at a time. By law and tradition, the maximum interest charged on credit union loans is one percent per month. Loans are generally for a term of less than five years, most due within 30 months. Average loan for general purposes is Bz\$500; average home improvement loan is Bz\$2,500.

The Holy Redeemer Credit Union is by far the largest credit union in the country. With roughly 20,000 members it accounts for more than 2/3 of the total credit union activities in the country. Its loan balance stood at over Bz\$16 million at the end of 1985.

USAID has assisted the credit union movement by providing them with technical assistance as well as with a loan-guarantee package totalling US\$2 million for the purpose of Home Improvement Loan Program (HILP). To date a total of US\$487,500 has been utilized by the credit unions; US\$400,000 by the members of the Belize Credit Union League, and US\$87,500 by the Holy Redeemer Credit Union. As mentioned earlier, DFC is also a participant of this program and has, to date, utilized US\$250,000 of the loan.

Some suggestions

The low population density of Belize and the limited banking services it requires, do not warrant full service branch banking in the rural communities. For this reason, the commercial banks have found it uneconomical to expand their branch banking operation throughout the country, undermining the drive for mobilization of savings. On the other hand, the credit unions could provide the rural community with financial services in a most cost effective manner; they employ part-time staff, with low overhead cost, and the management often draws no salary. It seems, therefore, that the credit unions, if supported, could play an important role as financial intermediaries for mobilizing savings, providing limited banking services, and administering loan and/or grants from the governments and/or domestic and international institutions. The situation of the credit union, therefore, warrants a thorough study and the consultant suggests that the study include the following areas:

- a) Organizational support
- b) Technical support
- c) Funding
- d) Permitting the credit unions to take deposit and pay interest.

6. International Financial Institutions Active in Belize

A host of international financial institutions, mainly in the field of development financing, are active in the Belize financial market. They influence the financial market by granting medium and long term loans either directly to the private sector or indirectly through the other financial intermediaries - Appendix 1 gives a brief description of these institutions which are as follows:

- a) Latin American Agricultural Development Bank (LAAD)
- b) Caribbean Development Bank (CDB)
- c) Commonwealth Development Corporation (CDC)
- d) European Development Bank
- e) European Development Fund
- f) Caribbean Project Development Facilities (CPDF)

Some Suggestions

With regard to direct financing, the consultant observed little or no coordination between the international development finance institutions, not even among those which draw funds from the same sources. For example, at the time when the consultant was in Belize, a number of similar projects for the expansion of banana plantations were being studied by three different development finance institutions, without one having knowledge of the others. The consultant, therefore, believes that some coordination among the international development finance institutions, without undermining free market forces, could go a long way in reducing the cost of project development and avoiding duplication of work and finances. This is especially important when development finance institutions undertake the task of project identification and evaluation directly, rather than through the DFC or other domestic financial intermediaries.

INTERNATIONAL FINANCIAL INSTITUTIONS
ACTIVE IN BELIZE

Latin American Agribusiness Development Corporation S.A. (LAAD)

LAAD is a private development finance institution which finances agribusiness projects in Latin America. Its shareholders are 16 agribusiness and financial corporations. LAAD has four subsidiaries: LAAD de Centro America, S.A., LAAD Americas, S.A.; LAAD Marketing Company, Inc., and LAAD Caribe, S.A.

LAAD's total loan and equity portfolio as of October 31, 1985, was \$34,231,214 comprised of \$32,510,936 in loans and \$1,956,278 in equity. This covered 245 projects in 20 countries. In 1985 the Corporation dispersed \$7.9 million to 36 projects in 13 countries; \$7,197,719 in loans and \$796,445 in equity investment. Average commitment per project is \$350,000. In 1984 LAAD established the LAAD Marketing Company whose objective is to promote export of goods from Latin America and the Caribbean to the U.S.

LAAD has financed 12 projects in Belize with a total investment of \$3,919,900. Between 1983 and 1985 seven projects representing an investment of roughly \$1,900,000 were approved.

USAID is a large source of LAAD's funds. LAAD's debt to USAID as of October 31, 1985, was \$21,575,420 and is payable in increasing semi-annual installments through February, 2002, at an interest rate of 3 or 4 percent per annum.

Caribbean Development Bank (CDB)

The Caribbean Development Bank (CDB) is a regional institution established by agreement on October 18, 1969. CDB made its first loans in 1970. As of May 1985, CDB had 23 members comprising 20 regional and 3 non-regional members.

CDB finances a wide range of development activities. The Bank's total financing approved as of May 1985, channeled to the 17 beneficiary states, is US\$523.6 million. This figure includes loans, equity, contingency loans and grants. Over the period 1970 to 1984 Belize accessed US\$42,009,000 from the various CDB funds. This is 8.2% of CDB's total investment activity.

In April 1984, CDB put into effect a system of variable interest rates. As of April 1985, the lending rate from Ordinary Capital Resources (OCR) was 10.75% per annum (inclusive of a commission of 1% per annum) plus a fee of 1% per annum on undisbursed funds and a preparation/appraisal fee of 1%. This was a drop in lending rate from the previous year. Repayment period is generally between 10 and 18 years after an appropriate grace period. Lending rates from Special Operations are 4% to 6% interest per annum (inclusive of a service fee of 1%). Repayment period is 15 to 20 years after a 5 year grace period.

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CDB has entered into agreements for loans, grants and technical assistance with AID, the Inter-American Development Bank (IDB), the World Bank, European Investment Bank, United Nations Development Programme (UNDP) and the Federal Republic of Germany. In 1984 this included a US\$16.2 million (\$12.7 million from USAID and \$3.5 million from CDB) Basic Needs Trust Fund signed into with AID to service the Organization of Eastern Caribbean States, Anguilla and Belize, and US\$25 million in loans from IDB.

The Board of Directors has delegated authority from the Board of Governors to take all decisions concerning loans and equity investments and other Bank operations. Voting power on CDB's Board of Directors and Board of Governors is determined by the number of shares owned by the country plus 150. Belize, with 366 shares, has 5.92% of the total votes on the Board of Directors, and .99% of the votes on the Board of Governors. Dean Barrow, Minister of Foreign Affairs and Economic Development, is Belize's representative on the Board of Governors.

Commonwealth Development Corporation (CDC)

CDC is a British development financial institution which operates principally in the developing countries of the Commonwealth. CDC has co-financed numerous projects in Belize with the Development Finance Corporation in banana and sugar production and held an equity position in the Fort George Hotel. CDC's regional controller governing Belize is located in Barbados.

CDC financing is through loans and equity investments. When participating in the equity, CDC normally takes between 10% and 40% of the share capital. Although loans are normally up to a maximum of 40%, CDC would consider lending up to 50% of the project cost. CDC has acted in partnership with host governments and in association with development agencies of such countries as the USA, West Germany, France and the Netherlands. It is associated with international bodies such as the World Bank (IBRD) and its affiliates, the European Investment Bank (EIB) and the European Development Fund (EDF). CDC has also acted in partnership with commercial banks.

CDC lends on a medium to long term basis (5-15 years). Term of the loan depends on the economic life of the project. For example, tree crops may have a term of 15 years with a grace period prior to the date the trees could bear fruit.

CDC investment in a given project is generally between \$1 million and \$20 million. In Belize, CDC may be willing to make investments somewhat below \$1 million. Interest rates depend on the social benefits of the project and its ability to generate

funds to pay the charges; a project with small farmers participation may be charged 7.5%-8% interest while an agro-industry project with larger farmers and investors may be charged 10%-12% interest. Certain industrial projects may be charged market rates above 12 percent.

The CDC procedure for project approval involves project identification, preparation and appraisal stages. The project sponsor is generally responsible for CDC's costs associated with the application including site visits by CDC to evaluate the feasibility study.

The European Development Fund (EDF) and European Investment Bank (EIB)

Belize has received soft loans (one percent interest, 40 year repayment period and one year grace period) and grants from the European Community (EC) via the European Development Fund (EDF). EDF funds Government projects and channels funds to the private sector through the Development Finance Corporation (DFC).

EDF funding comes from Economic Community member countries. Total funding already dispersed to Belize under Lome 1 was ECU 3,490,500 of which ECU 400,000 provided a line of credit through DFC to farmers. The DFC financing was dispersed in two installments in 1980 and 1982. The remaining ECU 2,000,000 from Lome I, and practically the entire allocation from Lome II (ECU 5,500,000), was originally targetted for the Belize College of Arts, Science and Technology (Belcast) but with the change of Government a request was made to reallocate this sum to the construction of a new hospital. Final approval of the EC Commission is pending on this reallocation. Belize has also received funding for two projects under EDF's regional program: CARDI, a 500 acre agriculture investigative unit and CARICOM farms.

Approval steps for EDF funding starts with the country's EC representative, proceeds to headquarters in Brussels, then to the EC Committee on EDF and finally to the EC Commission which includes representation from all member countries.

In the next few weeks an EC delegation will be in Belize to establish with the Belize Government terms for allocation over the next five year of ECU 7,000,000 (ECU 4,000,000 in grant and ECU 3,000,000 in soft loan) from EDF under Lome III. 80 percent of this funding is anticipated to go towards improving Hummingbird Highway and the remainder to other sources. Possible allocation of ECU 1,000,000 from the European Investment Bank (EIB) in the form of risk capital will be negotiated during this visit as well.

The European Investment Bank (EIB) receives funding from EC member countries but operates independently from EC. It offers both commercial interest rates and soft loans and has done co-financing with the European Development Fund, Inter-American Bank and the World Bank.

The European Investment Bank (EIB) has provided financing to the Development Finance Corporation in Belize through two loan agreements signed in 1983: one soft loan (2 percent interest, 25 year repayment period, eight year grace period) for ECU 600,000 in the form of risk capital, and one subsidized loan (7.5 percent interest, 13 year repayment period, four year grace period) for ECU 2,000,000 for a line of credit to small and medium enterprises in the industrial, agro-industrial and tourism sectors.

Caribbean Project Development Facility (CPDF)

Belize is a member of the Caribbean Project Development Facility (CPDF), a project under the auspices of the UNDP and IFC started in October 1981. The project's objective is to prepare small and medium sized private sector investment projects for financing, under the theory that financial institutions would make more financing available if more "bankable" projects were presented. CPDF does not itself finance projects but rather attempts to prepare and link up sound investments with financial institutions.

As of May 1983, the project had raised over US\$3,000,000 for operating expenses, mostly from the Inter-American Development Bank (IBD) and USAID. The governments of Canada and the Netherlands, the UNDP and the Caribbean Development Bank (CDB) have also contributed.

In the first 18 months of operation CPDF prepared 8 projects for financing, ranging from US\$350,000 to US\$3,600,000, and 25 projects were in preparation stages. CPDF services are provided by a regular staff and outside consultants. In Belize, CPDF worked with Belize Quality Poultry Produce to arrange a loan jointly from Caribbean Financial Services Corporation (CFSC) and the CBI rediscount fund. However, this project did not come to fruition. CPDF also prepared a US\$700,000 project in Belize concerning the rehabilitation of a banana plantation. In addition, projects in Belize recently under review include shrimp farming, beef cattle and sawmilling.

LAWS GOVERNING FINANCIAL INSTITUTIONSPART ICOMPILATION AND LISTING OF LAWSIntroduction

I have been asked to "prepare a compilation and listing of all laws and regulations governing financial institutions". As used in the directions given to me, the term "financial institutions" refers to all institutions, whether public or private, which are involved in the mobilisation and/or application of domestic and foreign resources. The said term therefore includes but is not limited to the Central Bank of Belize, commercial banks, development banks and other lending institutions, such as credit unions, building societies, Reconstruction and Development Corporation and National Development Foundation of Belize Limited.

The above-mentioned request has had to be dealt with in the light of certain important considerations. First of all, the term "laws" is broad enough, in my opinion, to include regulations. Secondly, as laws governing financial institutions take the forms of legislation and common law, in the sense of law created by the decisions of the courts, a compilation of such laws ought properly to include statements of all the relevant common law principles in addition to the texts of all relevant pieces of legislation. Realistically, however, I have been asked to limit the actual compilation to the relevant legislation and to deal with the common law only in the listing. Thirdly, the term "financial institution" is defined in three Belizean statutes. In the Banking Ordinance, Chapter 215 of the Laws of Belize, 1980 and the Central Bank of Belize Act, 1982, the term is used to mean a company which carries on "banking business", a term which is in both the said Ordinance and Act defined as the business of accepting deposits of money which may be withdrawn or repaid on demand, or after a fixed period, or after notice, and the employment of those deposits, in whole or in part, by lending or any other means, for the account and at the risk of the person accepting such deposits. In the third statute, viz., the Income Tax (Amendment) Act, 1984 (No.3 of 1984), the term is used to include "Credit Unions, Provident Funds and similar institutions". Fourthly, whilst references to "common law" in the listing are to the common law of Belize, it must be borne in mind that the bulk of the common law of Belize is English common law.

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The above-mentioned considerations have led me to the conclusion that, to be of maximum assistance, I should prepare, in addition to the compilation of legislation, (1) a listing of such legislation and (2) a listing of those areas of operation of financial institutions which are governed, whether wholly or in part, by common law.

It should be noted that the term "legislation", when used to refer to Belizean law, means principal legislation as well as subsidiary legislation. Principal legislation is distinguishable from subsidiary legislation in that it is enacted by the House of Representatives and Senate of Belize and is assented to by the Governor General. Principal legislation consists of Ordinances and Acts. Ordinances are those pieces of legislation enacted before Belize attained her independence in 1981. Acts are those pieces of legislation enacted after Belize attained her independence. Belizean legislation is revised from time to time. Each time a revision is carried out, a new set of volumes is printed and published. As far as principal legislation is concerned, the last revision covered most of the Ordinances of Belize which were in force on 31st December, 1980. The Ordinances affected by that last revision have been printed and published as the Laws of Belize, 1980. Each of those Ordinances is referred to by a chapter number. In the listing which follows, therefore, any Ordinance the title of which is accompanied by a chapter number, may safely be regarded as included in the Laws of Belize, 1980. Thus, the Banking Ordinance, Chapter 215, is an Ordinance (the 215th) included in the Laws of Belize, 1980.

On the other hand, those Ordinances which, though in force on 31st December, 1980, were neither revised nor printed and published as part of the Laws of Belize, 1980, cannot be referred to by chapter numbers in the listing which follows. An example would be the National Telecommunications System Loan Ordinance, 1971 (No. 11 of 1971). The reference to this particular Ordinance in the listing which follows indicates that it was the 11th Ordinance enacted in this country in 1971.

Subsidiary legislation, for its part, is legislation neither enacted by the House of Representatives and Senate nor assented to by the Governor General. Included amongst subsidiary legislation, also known as statutory instruments, are Rules, By-Laws, Orders and Regulations made by an individual, e.g. a Minister of the Government of Belize, pursuant to powers conferred upon him by some Ordinance or Act. The last revision of subsidiary legislation in Belize resulted in the printing and publication of the Subsidiary Laws of Belize, 1963. Each piece of subsidiary legislation

included in the Subsidiary Laws of Belize, 1963 is referred to by a chapter number. In 1963 the chapter number of a piece of subsidiary legislation was the same as that of the corresponding piece of principal legislation. Thus 102 was the chapter number not only of the Credit Union Standard By-Laws but also of the Credit Unions Ordinance then in force.

Post-1963 subsidiary legislation cannot, however, be referred to by chapter numbers. An example of such legislation is that referred to in the listing which follows as Exchange Control Regulations, 1975 (Statutory Instrument No.39 of 1975). This reference indicates that the Exchange Control Regulations are contained in the 39th Statutory Instrument made in Belize in 1975.

Listing of Legislation Governing Financial Institutions

1. Banana Industry Loan Ordinance, Chapter 54
2. Banking Ordinance, Chapter 215
3. Banking (Amendment) Act, 1982 (No. 19 of 1982)
4. Banking (Amendment) Act, 1984 (No. 21 of 1984)
5. Bankruptcy Ordinance, Chapter 201
6. Belize City Water and Sewerage System Loan Ordinance, Chapter 55
7. Belize International Airport Loan (United Kingdom Government) Ordinance, Chapter 56
8. Bills of Exchange Ordinance, Chapter 202
9. Bills of Sale Ordinance, Chapter 203
10. Building Societies Ordinance, Chapter 242
11. Building Societies (Amendment) Act, 1982 (No. 18 of 1982)
12. Caribbean Development Bank Ordinance, Chapter 216
13. Central Bank of Belize Act, 1982 (No. 15 of 1982)
14. Central Bank of Belize (Amendment) Act, 1984 (No. 26 of 1984)
15. Companies Ordinance, Chapter 206

16. Companies (Amendment) Act, 1985 (No. 12 of 1985)
17. Co-operative Societies Ordinance, Chapter 246
18. Co-operative Societies Rules, Chapter 101, Subsidiary Laws of Belize, 1963
19. Credit Unions Ordinance, Chapter 247
20. Credit Unions (Amendment) Act, 1982 (No. 13 of 1982)
21. Credit Union Standard By-Laws, Chapter 102, Subsidiary Laws of Belize, 1963
22. Currency Notes Regulations, Chapter 50, Subsidiary Laws of Belize, 1963
23. Debtors Ordinance, Chapter 130
24. Development Finance Corporation Ordinance, Chapter 226
25. Development Finance Corporation (Loans) Ordinance, Chapter 57
26. Evidence Ordinance, Chapter 75
27. Exchange Control Regulations Ordinance, Chapter 43
28. Exchange Control Regulations, 1975 (Statutory Instrument No. 39 of 1975)
29. Friendly Societies Ordinance, Chapter 249
30. General Registry Ordinance, Chapter 258
31. General Registry Rules, Chapter 218, Subsidiary Laws of Belize, 1963
32. Government Housing Loans Ordinance, Chapter 58
33. Government Housing Loans (Eligible Employees) Order, Chapter 238B, Subsidiary Laws of Belize, 1963
34. Income Tax Ordinance, Chapter 46
35. Income Tax (Amendment) Act, 1984 (No. 3 of 1984)
36. Income Tax (Amendment) Act, 1986 (No. 2 of 1986)
37. Income Tax (Amendment) Act, 1986 (No. 4 of 1986)
38. International Financial Organizations Act, 1981 (No. 3 of 1981)

39. Land Tax Act, 1982 (No. 16 of 1982)
40. Law of Contract Ordinance, Chapter 128
41. Law of Property Ordinance, Chapter 154
42. Limitation Ordinance, Chapter 132
43. Limitation (Amendment) Act, 1985 (No. 31 of 1985)
44. Loans (Caribbean Development Bank) Ordinance, Chapter 59
45. Loans (Commonwealth Development Corporation) Act, 1982 (No. 20 of 1982)
46. Loans (Development) Act, 1983 (No. 14 of 1983)
47. Loans (Development) (No. 1) Ordinance, Chapter 60
48. Loans (Development) (No. 2) Ordinance, Chapter 61
49. Loans (European Investment Bank) Act, 1983 (No. 13 of 1983)
50. Loans (United Kingdom) Act, 1984 (No. 5 of 1984)
51. Local Public Loans Ordinance, Chapter 62
52. Monetary Authority of Belize Ordinance, Chapter 217
53. Moneylenders Ordinance, Chapter 210
54. National Telecommunications System Loan Ordinance, 1971 (No. 11 of 1971)
55. New Capital City Loan (United Kingdom Government) Ordinance, 1969 (No. 11 of 1969)
56. New Capital City (Supplementary No. 1) Loan (United Kingdom) Ordinance, 1970 (No. 6 of 1970)
57. Partnership Ordinance, Chapter 211
58. Public Loans Ordinance, Chapter 63
59. Reconstruction and Development Corporation Ordinance, Chapter 156
60. Registered Land Ordinance, Chapter 157
61. Registered Land Rules, 1978 (Statutory Instrument No. 25 of 1978)
62. Savings Bank Ordinance, Chapter 218

- 63. Savings Bank Rules, Chapter 57, Subsidiary Laws of Belize, 1963
- 64. Stamp Duties Ordinance, Chapter 51
- 65. Stamp Duties Regulations, Chapter 39, Subsidiary Laws of Belize, 1963
- 66. Stamp Duties (Amendment) Act, 1984 (No. 1 of 1984)
- 67. Streets and Belize International Airport Loan Ordinance, Chapter 64
- 68. Supreme Court Rules, Chapter 5, Subsidiary Laws of Belize, 1963
- 69. Towns Property Tax Ordinance, Chapter 52
- 70. Treasury Bills Ordinance, Chapter 65

Listing of Areas of Operation of Financial Institutions Governed, whether wholly or in part, by common law

- 1. Relationship of Banker and Customer
 - (i) Confidentiality aspect
 - (ii) Debtor-Creditor aspect
 - (iii) Contractual aspect
 - (iv) Definition of Banker
 - (v) Definition of Customer
- 2. Bills of Exchange (including cheques)
- 3. Garnishee Proceedings
- 4. Promissory Notes
- 5. Banking Accounts
- 6. Financing by Bankers
- 7. Safe Custody of Valuables
- 8. Banker's References or Opinions
- 9. Securities for Advances
- 10. Termination of Banker-Customer Relationship
- 11. The Bank's Officials and Servants

PART 11SUMMARISING OF SELECTED LAWSLEGISLATION

1. Banking Ordinance, Chapter 215, as amended by the Banking (Amendment) Act, 1982 (No. 19 of 1982) and the Banking (Amendment) Act, 1984 (No. 21 of 1984)

The Banking Ordinance is a revision of the Banking Ordinance, 1976, and the amendments thereto. Under the Banking Ordinance, "banking business" means the business of accepting deposits of money which may be withdrawn or repaid on demand, or after a fixed period, or after notice, and the employment of those deposits, in whole or in part, by lending or any other means, for the account and at the risk of the person accepting such deposits. As a general rule no "banking business" may be carried on in or from within Belize except by a company licensed under this Ordinance. Applications for licences are required to be made to the Minister for the time being responsible for finance. Two types of licence may be issued, viz., General Licences and International Licences.

It is to be noted that the definition of the term "financial institution" which is provided in the Banking Ordinance is broader than that of the term "bank" which is also provided therein. A "financial institution" is, by the statutory definition, a company which carries on "banking business". On the other hand, the term "bank" means any financial institution whose business includes the acceptance of deposits of money withdrawable by cheque. Whilst it is clear from these definitions that the Ordinance contemplates the existence of financial institutions other than banks, there is no ground for concluding that bodies such as credit unions, building societies, Development Finance Corporation and Reconstruction and Development Corporation are such financial institutions, since none of them is a company for the purposes of the Banking Ordinance. The term "company", as defined in that Ordinance, means a company, including a company incorporated outside the country, registered under the Companies Ordinance. There appear to be no financial institutions other than banks now in existence in Belize.

Since the Ordinance provides, as stated above, that no "banking business" may be carried on in or from within Belize except by a company licensed thereunder, the conclusion to be drawn is that the above-mentioned bodies cannot, as the law now stands, lawfully conduct banking business. A similar disability is removed in the case of

the Government Savings Bank and the Central Bank of Belize by an express provision of the Banking Ordinance. No other body has been freed from the disabilities created by the Banking Ordinance. Needless to say, the National Development Foundation of Belize Limited, being a company registered in Belize, could, if capable of fulfilling the other requirements, properly make application for a licence to conduct banking business.

The Minister is empowered to deal with certain undesirable situations either by revoking licences or by taking less drastic action such as the imposition of new terms and conditions on a licensee or the variation of terms and conditions to which a licensee is already subject.

A licence cannot legally be granted to a financial institution unless the latter fulfils certain requirements as to capital which differ according to whether the financial institution is or is not a bank and is or is not local. Once a financial institution has been licensed it is required to maintain a reserve fund.

Under this Ordinance, a licensed financial institution may not pay dividends on shares or remit profits outside Belize until all its capitalised expenditure has been completely written off.

The Ordinance also specifies certain types of activities in which licensed financial institutions may not engage except with the permission of the Minister. These activities include the granting to a group of companies or persons, which group is under the control or influence of one and the same person, of advances or credit facilities the total value of which is, at any time, more than 25 per centum of the assigned capital and the reserve fund in Belize of the foreign financial institution concerned.

There are other types of activities in which a licensed financial institution may not under any circumstances engage. These activities include wholesale or "resale" trade, including the import or export trade.

A licensed financial institution is required by this Ordinance to maintain a minimum balance on an account in its name with the Central Bank. It must, in addition, maintain a minimum aggregate holding of approved liquid assets.

This Ordinance also requires the submission to the Central Bank of statements by licensed financial institutions in relation to their operations in Belize. The requirements vary according to whether the institution concerned is or is not a bank. No statement can, however, be required with respect to the affairs of any particular customer of an institution.

This Ordinance imposes on the Central Bank the duty to maintain a general surveillance over financial institutions and over the performance of banking business in Belize. In this connection, it authorises the Central Bank to designate one of its officials Inspector of Banks and Financial Institutions and to make recommendations to the Minister regarding the affairs of any licensed financial institution.

A licensed financial institution is required by the statute annually to appoint an approved auditor who shall be under a duty to report to the shareholders upon the annual balance sheet and accounts. If an institution fails to appoint an approved auditor, the Minister may appoint one.

There is no requirement, whether in this or any other statute or, for that matter, in the common law, that banks should insure against the risk of losing the moneys of customers. However, as will be seen when the Savings Bank Ordinance is discussed, the repayment of all monies deposited into the Government Savings Bank is guaranteed by the Government.

2. Central Bank of Belize Act 1982 (No. 15 of 1982) as amended by the Central Bank of Belize (Amendment) Act 1984 (No. 26 of 1984)

The Central Bank of Belize Act, 1982, which is deemed to have come into force on 1st January, 1982, is divided into nine parts. Part I deals with the interpretation of terms.

Part II establishes the Central Bank of Belize as an autonomous institution and a body corporate having perpetual succession and a common seal. This part also provides that the objectives of the Bank shall be to foster monetary stability, especially as regards the rate of exchange, and to promote credit and exchange conditions conducive to the growth of the economy of Belize.

Part III makes provision for the Bank to have an authorised capital of ten million Belize dollars and to establish a General Reserve Fund and deals generally with the matter of capital and reserves.

Part IV requires the constitution of a Board of Directors, provides that such a Board shall be the policy-making organ of the Bank and deals with administration in general.

Part V makes provision for the unit of currency of Belize to be a dollar and for the par value thereof to be equivalent to fifty cents of a United States of America dollar and contains other provisions concerning currency.

Part VI authorises the Bank to buy or sell or otherwise deal in foreign exchange and is concerned generally with foreign exchange transactions of the Bank. Authority is also conferred on the Bank under this part of the Act to exercise any powers or functions conferred upon or entrusted to the Controller or Competent Authority under the Exchange Control Regulations Ordinance, 1972 or any other law for the time being in force relating to exchange control.

Part VII confers on the Bank authority to act as fiscal agent and trustee of and banker to the Government of Belize and deals generally with the relations of the Bank with the Government.

Part VIII requires the Bank to open accounts for and accept deposits from and collect money and other monetary claims for and on account of licensed financial institutions. This part provides for the Bank generally to act as banker to such financial institutions and focuses on the relations of the Bank with those institutions.

Part IX provides that, immediately upon the coming into operation of the Act, all the assets and liabilities of the Monetary Authority of Belize shall be transferred to the Bank and proceeds to vest such assets in the Bank and to render such liabilities enforceable against the Bank. By virtue of this Part, the Monetary Authority of Belize Ordinance, 1976 has been repealed and the Monetary Authority of Belize replaced in all respects by the Central Bank of Belize.

3. Development Finance Corporation Ordinance,
Chapter 226

The Development Finance Corporation Ordinance is a revision of an Ordinance which came into force in 1963 and of the amendments thereto. The 1963 Ordinance established the Development Finance Corporation as a body corporate with perpetual succession and a common seal.

The purposes of the Corporation are in the statute stated to be to expand and strengthen the economy of Belize. There are four ways in which the Corporation is authorised to fulfil its purposes, viz.:

- (1) by supplying finance for the development of agriculture, forestry, fishing, industry, tourism, housing and public utilities;
- (2) by purchasing, developing and improving land and engaging in commercial ventures;
- (3) by promoting and facilitating domestic and foreign capital investment; and
- (4) by undertaking, promoting and facilitating economic and financial studies as a guide to investment.

Numerous powers are vested in the Corporation by the Ordinance. Included amongst them are the power to provide finance in the form of loans, or by purchasing or subscribing for shares or other securities, or by acquiring any other interest, the power to guarantee loans from other sources and the power to open deposit accounts with any Bank. The Corporation may also borrow from the Government of Belize.

Shares in the Corporation may be subscribed for by the Government of Belize and any person.

The Ordinance requires that every application for a loan be considered strictly on its financial and economic merits and in the light of recommendations as to character of the applicant.

A general reserve fund is required to be maintained by the Corporation. The Ordinance also authorises the Corporation to issue debentures or bonds for the purpose of exercising its borrowing powers.

It is provided in the Ordinance that the profits of the Corporation shall, during the tax holiday period, not be liable to taxes under the Income Tax Ordinance but that

the Corporation shall in all other respects be subject to the provisions of the said Ordinance.

4. Development Finance Corporation (Loans) Ordinance, Chapter 57

The Development Finance Corporation (Loans) Ordinance is a revision of an Ordinance which came into force in 1972 and which authorised a Minister of the Government of Belize to borrow money to be appropriated and applied for the purpose of purchasing shares in the Development Finance Corporation.

5. Credit Unions Ordinance, Chapter 247

The Credit Unions Ordinance is a revision of an Ordinance which came into force in 1947 and of the amendments thereto.

A credit union may be issued with a certificate of incorporation by the Registrar of Credit Unions under the Credit Unions Ordinance. The credit union thereupon becomes a body corporate.

Shares of the capital of credit unions are sold and dividends paid to the holders thereof. An entrance fee may be charged.

The objects of a credit union are by this Ordinance stated to be:

1. the promotion of thrift among its members;
2. the receipt of the saving of its members either as payment on shares or as deposits; and
3. the making of loans to members exclusively for provident or productive purposes.

The income of a credit union may be declared by the Minister of the Government of Belize responsible for finance to be exempt from income tax.

6. Credit Union Standard By-Laws, Chapter 102, Subsidiary Laws of Belize, 1963

The Credit Union Standard By-Laws, which were made in 1948, are divided into fourteen parts which deal respectively with:

1. Organization and Membership;

2. Capital and Liability ;
 3. Deposits;
 4. Receipts-pass book ;
 5. Loans;
 6. Meetings;
 7. Nominations and elections;
 8. Directors;
 9. Duties of Officers;
 10. Banking;
 11. Credit committee;
 12. Supervisory committee;
 13. Reserves; and
 14. Supplementary by-laws.
7. Building Societies Ordinance, Chapter 242 as amended by Building Societies (Amendment) Act 1982 (No. 18 of 1982)

The Building Societies Ordinance is a revision of an Ordinance which came into force in 1912 and of the amendments thereto.

The Building Societies Ordinance provides for the establishment and incorporation of either terminating or permanent building societies, the purposes of which are to raise, by the subscription of members, stocks or funds for making advances to members, out of the funds of the societies, upon security of freehold property by way of mortgage.

Under the statute, a society may raise funds by the issue of shares and repay such funds when they are no longer required for the purposes of the society. It is also provided that a society may receive deposits or loans at interest from the members or other persons, or from corporate bodies, joint stock companies or any terminating society under the Ordinance.

A society may, under this Ordinance, make advances to its members out of its funds upon security of freehold property by way of legal mortgage and shall have power to sell the mortgaged property with the leave of the court. A society cannot, however, advance money on the security of an estate which is subject to a prior mortgage, save where the prior mortgagee is the society making the advance.

The secretary or other officer of every society is required by the Ordinance annually to prepare an account of all the receipts and expenditures of the society and a general statement of its funds and effects, liabilities and assets, showing the amounts due to the holders of the various classes of shares respectively, to depositors and creditors for loans, and also the balance due or outstanding on their mortgage securities, not including prospective interest, and the amount invested in the funds or other securities. Such an account and statement must be attested by the auditors of the society. Every member, depositor and creditor is entitled to a copy of the account and statement.

The income of any statutory or registered building society is exempt from income tax.

8. Co-operative Societies Ordinance, Chapter 246

The Co-operative Societies Ordinance is a revision of an Ordinance which came into force in 1948.

Under the Co-operative Societies Ordinance a society which has as its object the promotion of the economic interests of its members in accordance with co-operative principles, or a society established with the object of facilitating the operations of such a society may be registered. Upon registration, a society becomes a body corporate with perpetual succession.

The Ordinance does not expressly authorise the making of loans by a registered society but does recognise that such societies lend money. It provides that, as a general rule, a society shall not make any loan to a person other than a member but that, with the consent of the Registrar of Co-operative Societies, a loan may be made to another registered society.

9. Co-operative Societies Rules, Chapter 101, Subsidiary Laws of Belize, 1963

Rules 42-50 of the Co-operative Societies Rules, which were made in 1949, are applicable to credit co-operative societies and deal with:

1. application for a loan;
2. sanction of a loan;
3. security for a loan;
4. liability of a guarantor;
5. purposes of loans;
6. documents relating to loans;
7. restrictions on loans to defaulters;
8. misapplication of a loan; and
9. recovery of loans.

10. Caribbean Development Bank Ordinance, Chapter 216

The Caribbean Development Bank Ordinance, a revision of an Ordinance which came into force in 1970, ratifies and approves the acceptance by the Government of Belize of the agreement establishing the Caribbean Development Bank. The Ordinance provides that the Bank shall possess full juridical personality and enjoy immunity from every form of legal process save in certain cases mentioned therein. Varying measures of immunity are also conferred by the Ordinance on the personnel, assets and archives of the Bank.

11. Monetary Authority of Belize Ordinance, Chapter 217

The Monetary Authority of Belize Ordinance is a revision of a statute enacted in 1976 and is divided into nine parts, the first of which deals with preliminary matters. By an unfortunate anomaly, the 1976 statute was properly repealed in 1982 by the Central Bank of Belize Act 1982 but the revision was brought into force in 1984.

Part II establishes the Monetary Authority of Belize as a body corporate having perpetual succession and a common seal, makes provision as to the objectives of the Authority and deals generally with the constitution of the Authority.

Part III provides that the authorised capital of the Authority shall be four million dollars, requires that the Authority shall establish and maintain a General Reserve Account and deals with capital and reserves generally.

Part IV provides for the unit of currency of Belize to be the Belize dollar, requires that the parity of such dollar shall be equivalent to an amount of U.S.\$0.50 and deals with currency generally.

Part V provides that the Authority shall act as bank to the Government of Belize and deals with the relations of the Authority with the Government generally.

Part VI authorises the Authority to act as bank to financial institutions and deals generally with powers of the Authority and relations with banks and other financial institutions.

Part VII deals generally with monetary powers of the Authority including the power to vary the proportion which the average minimum balance required to be held by every financial institution on an account with the Authority, before the establishment of the Central Bank, was required to bear to the deposit liabilities of each financial institution.

Part VIII provides for the accounts of the Authority to be audited annually by external auditors appointed by the Board of Directors and deals with other internal matters.

Part IX authorises the Minister of the Government of Belize for the time being responsible for finance to make regulations and deals with other miscellaneous matters.

12. Reconstruction and Development Corporation Ordinance, Chapter 156

The Reconstruction and Development Corporation Ordinance is a revision of a statute which came into force in 1962 and of the amendments thereto. The said statute had established the Reconstruction and Development Corporation as a body corporate, with perpetual succession and a common seal, and authorised the Corporation to borrow

money from any person or body. The Ordinance confers on the Corporation the power to make grants or loans to persons for housing, business or agricultural purposes, including the purchase of land for such purposes.

13. Savings Bank Ordinance, Chapter 218

The Savings Bank Ordinance is a revision of a statute which came into force in 1939 and of the amendments thereto.

The Ordinance provides for the Accountant General to have the management and control of the Savings Bank and that the repayment of all moneys deposited in the said Bank, together with interest thereon, is guaranteed by the Government. Under the Ordinance interest is payable on deposits at the rate of 2 1/2 per centum per annum or at such other rate as may be fixed from time to time.

The income of the said Bank is exempt from income tax.

14. Savings Bank Rules, Chapter 57, Subsidiary Laws of Belize, 1953

The Savings Bank Rules, which were made in 1939, deal with:

1. business days and hours;
2. opening and closing of branches;
3. opening of an account;
4. pass books;
5. deposits;
6. withdrawals;
7. nominee of depositor;
8. creditor of deceased depositor;
9. power of Minister on death of depositor;
10. termination of liability to repay funds to a depositor;
11. recording of transactions;
12. transfer of accounts; and
13. Stamp Savings Cards.

15. Moneylenders Ordinance, Chapter 210

The Moneylenders Ordinance is a revision of earlier statutes, the first of which came into force in 1954. The Ordinance is divided into six parts, the first of which deals with preliminary matters and provides that the term "moneylender" includes every person whose business is that of moneylending, or who advertises or announces himself or holds himself out in any way as carrying on that business, but does not include -

- (a) any registered society within the meaning of the Friendly Societies Ordinance or any society registered or having rules certified under the Building Societies Ordinance; or
- (b) any body corporate, incorporated or empowered by a special enactment to lend money in accordance with such special enactment; or
- (c) any person bona fide carrying on the business of banking or insurance or bona fide carrying on any business not having for its primary object the lending of money, in the course of which and for the purposes whereof he lends money; or
- (d) any body corporate for the time being exempted from the Ordinance by order of a Minister of the Government of Belize.

The second part deals with the registration and licensing of moneylenders.

The third part deals with the form of moneylender's contracts. It provides that a contract for the loan of money by a moneylender shall be illegal in so far as it provides for the payment of compound interest or for the rate or amount of interest being increased by reason of any default in the payment of sums due under the contract. Provision is however made for a contract to state that, if default is made in the payment upon the due date of any sum payable to the moneylender under the contract, the moneylender shall be entitled to charge simple interest on that sum from that date of the default until the sum is paid, at a rate not exceeding the rate payable in respect of the principal apart from any default. Any interest so charged shall not be reckoned for the purposes of the Ordinance as part of the interest charged in respect of the loan.

The fourth part deals with the regulation of money-lending transactions.

The fifth part deals with the assignment of money-lender's debts.

The sixth part deals with the limitation of proceedings by moneylenders, e.g. action for the recovery of money lent.

The seventh part deals with the granting by the courts of relief from harsh and unconscionable transactions. Under provisions contained in this part of the Ordinance, a court which is satisfied by evidence before it that interest charged is excessive, and that the relevant transaction is harsh and unconscionable, may re-open such transaction and, amongst other things, relieve a person from payment of any sum in excess of such sum as is adjudged by the court to be fairly due in respect of such principal, interest and charges as the court may adjudge to be reasonable. Under this part of the Ordinance, a court which finds that interest charged by a moneylender exceeds the rate of forty-eight per centum per annum, or the corresponding rate in respect of any other period, shall, inless the contrary is proved, presume that the interest charged is excessive and that the transaction is harsh and unconscionable. It is clearly provided, however, that a court may be satisfied that interest charged is excessive even where the rate thereof does not exceed forty-eight per centum per annum. There are no other provisions limiting the rate of interest chargeable by moneylenders.

The eighth part deals with bankruptcy proceedings for money lender's loans.

The ninth part deals with miscellaneous matters such as proceedings for the punishment of persons who contravene provisions of the Ordinance.

16. Government Housing Loans Ordinance, Chapter 58

The Government Housing Loans Ordinance is a revision of a statute which came into force in 1960 and of the amendments thereto. The Ordinance is divided into five parts, the first of which deals with certain preliminary matters.

Part II establishes the Government Housing Loans Board as a body corporate with perpetual succession and a common seal and deals generally with that Board.

Part III identifies the sources of the funds of the Board and contains other financial provisions.

Part IV authorises the Board to make loans for purposes therein enumerated to Government employees, teachers and persons in the service of certain corporations and contains other provisions as to loans.

Part V deals with certain miscellaneous matters such as the exemption of the income of the Board from income tax.

17. Government Housing Loans (Eligible Employees) Order, Chapter 238B, Subsidiary Laws of Belize, 1963

As its title suggests, the Government Housing Loans (Eligible Employees) Order, which was made in 1961, specifies the classes of employees who are eligible for loans under the Government Housing Loans Ordinance.

18. Currency Notes Regulations Chapter 50, Subsidiary Laws of Belize, 1963

The Currency Notes Regulations deal with:

1. currency officers;
2. plates bearing devices from which notes shall be printed;
3. supervision of the printing of notes;
4. safe custody of unissued notes;
5. first issue of notes;
6. re-issue of notes;
7. minimum sum for exchange commission;
8. books to be kept by Currency Board;
9. classification of notes withdrawn from circulation;
10. custody of notes to be re-issued;
11. cancellation of notes;
12. destruction of cancelled notes;
13. Board of Survey;

- 14. accounts of Currency Board; and
- 15. estimates of expenditure of Currency Board.

19. Exchange Control Regulations Ordinance, Chapter 43

The Exchange Control Regulations Ordinance is a revision of an Ordinance which came into force in 1972 and which authorised the Minister of the Government of Belize for the time being responsible for exchange control to make regulations in respect of any matter or thing connected with exchange control.

The Ordinance also authorises the Minister to appoint a Controller for the purpose of exchange control regulations. Such Controller is empowered to make and issue orders and directions necessary to implement the provisions of the exchange control regulations. It is required by the Ordinance that such orders, but not such directions, shall be published in the Gazette.

20. Exchange Control Regulations, 1975 (Statutory Instrument No. 39 of 1975)

The Exchange Control Regulations, 1975 were, as the title suggests, made in 1975 and are divided into eight parts. Part I imposes restrictions on the purchasing and borrowing of gold and foreign currency in Belize and, as far as residents of Belize are concerned, also outside of Belize. This part deals generally with gold and foreign currency.

Part II imposes restrictions on the making of payments to or for the credit of persons resident in certain territories and deals generally with the subject of payments.

Part III imposes restrictions on the issue of securities in Belize and deals generally with the subject of securities.

Part IV restricts the importation of any notes of a class which are or have at any time been legal tender in Belize and deals generally with the subject of import and export.

Part V is concerned with certain miscellaneous matters.

Part VI is a supplement to the rest of the Regulations, providing, for example, that provisions of the Regulations imposing any obligation or prohibition shall have effect subject to such exemptions as may be granted by order of the Competent Authority.

Part VII contains what are referred to as special provisions dealing with, among other things, the transfer, by persons resident in certain territories, of land situate in Belize to persons resident in countries the currencies of which are foreign currencies.

Part VIII deals with the interpretation of terms used in the Regulations.

21. Treasury Bills Ordinance, Chapter 65

The Treasury Bills Ordinance, a revision of a statute which came into force in 1972, authorises the Minister of the Government of Belize for the time being responsible for finance to borrow by the issue in Belize of treasury bills and provides that the Financial Secretary may issue such bills. The Ordinance further provides that the principal sums represented by treasury bills outstanding at any one time shall not exceed fifteen per centum of the estimated revenue of the Government during the financial year then current.

22. Bills of Sale Ordinance, Chapter 203

Part II of the Bills of Sale Ordinance, a revision of an Ordinance which came into force in 1883, deals with Bills of Sale given as security for the payment of money. This part deals mainly with the requirements of a valid bill of sale and the seizure of personal chattels assigned under a bill of sale.

23. Companies Ordinance, Chapter 206

The Companies Ordinance is a revision of an Ordinance which came into force in 1914 and of the amendments thereto.

Sections 93-106 of the Companies Ordinance contain provisions requiring the registration at the Companies Registry of certain particulars of mortgages and charges created by companies and are concerned generally with such mortgages and charges as well as with debentures created by companies as security for the payment of money.

24. General Registry Ordinance, Chapter 258

The General Registry Ordinance is a revision of an Ordinance which came into force in 1954 and of the amendments thereto. Part III of the General Registry Ordinance is concerned with legal charges and incumbrances over land and is therefore relevant to the matter of security for the payment of money. The provisions of this part deal specifically with the Land Charges Register, the registration of legal charges, the registration of incumbrances and the registration of assignments and cancellations of legal charges and incumbrances.

Part V of the Ordinance is concerned with the recording of deeds and is therefore also relevant to the matter of security for the payment of money.

25. General Registry Rules, Chapter 218, Subsidiary Laws of Belize, 1963

The General Registry Rules, which were made in 1954, deal with the forms of documents, such as deeds of mortgage, assignments of mortgage and cancellations of mortgage, and with the fees payable to the Government of Belize in connection with the registration and recording of those documents.

26. Law of Contract Ordinance, Chapter 128

The Law of Contract Ordinance is a revision of a statute which came into force in 1953. Sections 5 and 6 of the Ordinance deal with the form of a guarantee concerning the payment of money and are therefore relevant to the matter of security.

27. Law of Property Ordinance, Chapter 154

The Law of Property Ordinance is a revision of a statute which came into force in 1954. Sections 53-54 of the Ordinance deal generally with the execution of deeds and are therefore of relevance to the execution of documents in favour of financial institutions.

Part III of the Ordinance is in part concerned with charges by way of legal mortgage and equitable mortgages created to provide security for the payment of money.

28. Registered Land Ordinance, Chapter 157

Part V of the Registered Land Ordinance, which came into force in 1977, deals in part with charges and is therefore of relevance to the matter of security for the payment of money.

29. Registered Land Rules, 1978 (Statutory Instrument No. 25 of 1978)

The Registered Land Rules, 1978, made, as the title suggests, in 1978, prescribe forms required to be used under the Registered Land Ordinance. Forms of charges, discharges of charges, transfers of charges and transfers by charges in exercise of powers of sale are so prescribed. Fees payable to the Government of Belize in connection with the registration of the said instruments are also set forth in the Rules.

30. Bills of Exchange Ordinance, Chapter 202

The Bills of Exchange Ordinance is a revision of an Ordinance which came into force in 1923, and of the amendments thereto, and is divided into five parts. Part I is concerned with preliminary matters. Part II is concerned with Bills of Exchange and deals specifically with:

1. the form and interpretation of bills of exchange;
2. the capacity and authority of parties to bills of exchange;
3. the consideration for a bill of exchange;
4. the negotiation of bills of exchange;
5. general duties of the holder of a bill of exchange;
6. the liabilities of parties to a bill of exchange;
7. the discharge of a bill of exchange;
8. acceptance and payment for honour of a bill of exchange;
9. lost bills of exchange; and
10. conflict of laws.

Part III is concerned with cheques drawn on bankers, including the crossing of cheques, and banker's drafts. Part IV is concerned with promissory notes. Part V is concerned with miscellaneous matters.

31. Debtors Ordinance, Chapter 130

The Debtors Ordinance, a revision of an Ordinance which came into force in 1878, provides that no person shall be arrested or imprisoned for making default in payment of a sum of money except in certain cases therein mentioned. The Ordinance also deals with criminal offences committed by debtors.

32. Bankruptcy Ordinance, Chapter 201

The Bankruptcy Ordinance is a revision of an Ordinance which came into force in 1902, and of the amendments thereto, and is divided into nine parts. Part I deals with proceeding from act of bankruptcy to discharge. Part II deals with the disqualification of a bankrupt. Part III deals with the administration of property. Part IV deals with official receivers. Part V deals with trustees in bankruptcy. Part VI deals with procedures and powers of the court. Part VII deal with small bankruptcies. Part VIII deals with miscellaneous matters. Part IX deals with offences.

33. International Financial Organizations Act, 1981 (No. 3 of 1981)

The International Financial Organizations Act, 1981 authorises the Minister of the Government of Belize to whom responsibility for finance is assigned to accept on behalf of Belize membership in the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation and the International Development Association and to take other necessary steps in connection with the admission of Belize to membership of those organizations.

COMMON LAW

LAW ON THE RELATIONSHIP OF BANKER AND CUSTOMER.

1. CONFIDENTIALITY

A banker is under a duty to treat his customer's affairs as strictly confidential. This duty applies in the case of all transactions that go through the customer's account and any securities given in respect thereof.

The duty does not operate in certain exceptional cases, viz.,

- (i) where there is compulsion of law;
- (ii) where there is a duty to the public to disclose;
- (iii) where the interests of the banker require disclosure; and
- (iv) where the disclosure is made with the express or implied consent of the customer.

2. DEBTOR AND CREDITOR

A banker is regarded as having borrowed the money of a depositor.

The banker is not, however, under a duty to seek out and tender payment to his customer nor can he be sued before being called upon to pay the customer.

3. CONTRACT BETWEEN BANKER AND CUSTOMER

The contract of debt is legally at the basis of the relationship of banker and customer.

4. DEFINITION OF BANKER

No satisfactory definition can be extracted from the decisions of English courts. Such guidance as the courts have intended to extend has been neither clear nor conclusive.

An English court has held that if a man keeps open shop for the receipt of money from all who choose to deposit it with him, and his business is to trade for profit in money deposited with him for that purpose, he answers to the description of "banker"

In Ireland a court has held that the business of taking money on deposit account but not current account is banking.

5. DEFINITION OF CUSTOMER

It appears that a customer is one for whom a bank has either opened or agreed to open an account.

II BILLS OF EXCHANGE (INCLUDING CHEQUES)

The provisions of the Bills of Exchange Ordinance cannot be viewed by Belizean courts in isolation from the numerous decisions of the English courts in cases dealing with English legislation similar to that Ordinance.

III PROMISSORY NOTES

Promissory notes are dealt with under the above-mentioned Bills of Exchange Ordinance. The comment made above in the context of Bills of Exchange would, therefore, also apply in the case of promissory notes.

IV BANKER'S REFERENCES OR OPINIONS

English case law on these matters would represent Belizean common law in its entirety.

V SECURITIES FOR ADVANCES

The bulk of Belizean common law on this subject would be English common law.

ADDENDUM

1. Social Security Ordinance, Chapter 34

The Social Security Ordinance provides for the establishment of a fund to be called the Social Security Fund. It is required that there be paid into this Fund-

- (a) all contributions;
- (b) all rent, interest, dividend and investments and other income derived from the assets of the Fund;
- (c) all sums recovered for the Fund under the Ordinance;
- (d) all sums properly accruing to the fund under the Ordinance; and
- (e) any sums approved by the National Assembly for the purposes of the Ordinance.

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The Ordinance limits itself to authorising the Social Security Board to invest any money forming part of the reserves of the Fund in accordance with the provisions of the Ordinance and the directions given by the Social Security Investment Committee. There are, however, no relevant provisions in the Ordinance and the said Committee is merely conferred with power to give general or specific directions on the investment of moneys in the Fund which are surplus to current needs. Accordingly, there are almost no legal restrictions regarding the investment by the Social Security Board of its funds.

2. Insurance Ordinance, Chapter 208

Statutory Funds

The Insurance Ordinance requires every company carrying on insurance business to establish and maintain a statutory fund in respect of each class of insurance business carried on by the Company. The Ordinance states that the assets of a statutory fund shall not be invested except as therein provided. The Second Schedule to the Ordinance sets out the securities in which a company may invest such assets. That Schedule may from time to time be amended by a Minister of the Government of Belize.

Funds in General

The Ordinance also provides that a local company shall not-

- (a) acquire or deal in its own shares or lend money or make advances on the security of its own shares;
- (b) lend any of its funds to a director or officer of the company or to the wife or a child of a director or officer except on the security of the company's own policies or some other adequate security;
- (c) lend any of its funds to a company if more than one-half of the shares of such company are owned by a director of the company or the wife or a child of a director or officer, or by any combination of such persons;

- (d) grant unsecured credit facilities to any person except for temporary cover in the case of general insurance where such cover does not exceed ninety days or except in the case of advances to agents or to full time employees against commissions or salaries to be earned; and
- (e) enter into any guarantee or provide any security in connection with a loan by any other person to any such person or company as is mentioned in paragraph (b) or (c).

It is also provided that a foreign company shall not grant unsecured credit facilities to any person in Belize except in the case of general insurance for temporary cover not exceeding ninety days or of advances to agents or full-time employees against commissions or salaries to be earned.