
FOLLOW-UP REPORT, FINANCIAL MARKET OF BELIZE

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

Prepared by:

J. Shoraka

Sponsored by:

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

July, 1986

FINANCIAL MARKET OF BELIZE

Follow-Up Report Prepared by Jalil Shoraka

July 7, 1986

During the period from June 15 through June 28, 1986, the consultant made a follow-up visit to Belize and reviewed his report, "A Study of the Financial System of Belize - May 12, 1986", with the USAID Mission. Mr. Herbert Wegner, Director of the Financial Market Program and Ms. Sandra Frydman of the Office of Science and Technology (AID) attended the first review session. Also, the consultant discussed the content of the report with the Honorable Henry Cane, Financial Secretary, and Mr. Slusher, the governor of the Central Bank of Belize.

After numerous in-house meetings and discussions, it was concluded that the recommendations presented in the report can be divided into three distinct categories as follows:

1. Policy changes within the financial sector
2. The assistance to, and possible privatization of, the Development Finance Corporation (DFC), and
3. The creation of a leasing company, either as an independent organization, or as a subsidiary to DFC or other financial institution.

With regard to the policy changes, the Mission will take the initiative and the consultant will assist the Mission in maintaining policy dialogue with the financial sector. Regarding DFC and the leasing company, the consultant, at the request of the Mission, is presenting below the short-term technical assistance requirements for two alternative recommendations. Each of the recommendations concerns a financial institution which can be used as an intermediary for the Mission's new credit project.

A. DEVELOPMENT FINANCE CORPORATION (DFC)

The privatization of, and assistance to the DFC is a promising method of mobilizing credit resources in the financial sector in Belize. However, the Government of Belize may face political complications with such an immediate privatization. For this reason, it is not necessary for the DFC to be privatized "all at once", rather, only a five-year plan for gradual divestiture needs to be worked out. Hopefully, this could help ensure the political viability of such a project.

Also any financial assistance to DFC should be contingent upon the submission of a plan for its reorganization, as was fully explained in the "Study". The Mission could provide short-term technical assistance for such reorganization, in the following areas:

Short Term Technical Assistance Requirements

1. Cash Flow Analysis (three years).

(a) Sources of Funds:

- New Loans
 - External
 - Internal
- Repayment of outstanding loans
- Interest income
- Fees and income from other services
- Other sources of funds

(b) Application of Funds:

- New disbursements
- Repayment of debts
- Interest expense
- Payment of fees and service charges
- Operating expenses:
 - Salary and wages
 - Equipment and supplies
 - Other operating expenses

2. Demand Analysis for New Credit.

3. Portfolio Analysis.

(a) Portfolio Analysis by Source of Loan:

- Review the sources of funds for terms
- Review the outstanding loans for terms
- Review loans which have been rescheduled and test their performances separately.
- Prepare list of loans in arrears and age receivables:
 - 1 to 30 days
 - 31 to 90 days
 - 91 to 180 days
 - 181 to 360 days
 - over 360 days

(b) Portfolio Analysis of Type of Loan:

- Agriculture:
 - Banana
 - Citrus
 - Others

- Agro-industry
- Fishing industry
- Tourism
- Consumer
- Apparel
- Commercial
- Others (identify any loan over Bze. \$100,000)

4. Project Identification and Evaluation Capabilities:

- (a) Technical expertise
- (b) Economic and market expertise
- (c) Financial expertise

5. Management Evaluation:

- (a) Review of Standard Operating Procedures
- (b) Organization
- (c) Line of command and communication
- (d) Division of responsibility
- (e) Personnel policies
- (f) Training needs and programs
- (g) Management and staff efficiency
- (h) Collection policies

6. Analysis of Expansion Opportunities:

(a) Expansion and diversification of operations:

- Development banking
- Commercial banking
- Mortgage banking

(b) Mobilization of funds:

- Debentures
- Certificates of Deposit
- Saving and time deposits
- Inter-bank borrowings

7. Privatization Action Plan.

Schedule

The evaluations and analyses detailed above along with corresponding recommendations can be completed in four to six months in conjunction with the development of the Project Paper. It is the consultant's view that all of the work identified is needed to prepare a project design. The following expertise is required:

	<u>Specialist</u>	<u>Person /Day</u>
1. Cash Flow Analysis	Acct./Financial	15
2. Demand Analysis	Bus./Financial	10
3. Portfolio Analysis	Financial Analyst	25
4. Prj. Dev. Capabilities	Bus./Dev. Banking	10
5. Eval. of Management	Management/Business	10
6. Analysis of Expansion	Bus./Cgm. Banking	20
7. Privatization Plan	Privatization	10
8. Team Supervision	Banking/Finance	10
TOTAL		<u>110</u>

The functions listed under items 2, 4, 7, 8, and part of item 6 of the schedule can be performed by this consultant.

B. OTHER FINANCIAL INSTITUTIONS AS ALTERNATIVES TO DEVELOPMENT FINANCE CORPORATION

I. RESTRUCTURING OF AN EXISTING COMMERCIAL BANK

The Royal Bank of Canada has recently offered to sell its branch operation in Belize. The offer is being reviewed by a number of private sector groups. The USAID Mission may decide to implement the "Credit Project" through this bank, and provide part or all of the short term technical assistance which was listed under DFC with some variations.

In order to avoid favoritism toward any particular private sector group, the Mission may want to make its intention known to all groups, possibly through the Central Bank and/or the Ministry of Finance. According to recent conversations with officials of Royal Bank of Canada, it is doubtful that the sale will be completed within the next twelve months.

Short Term Technical Assistance Requirements

1. Cash flow analysis

(a) Sources of Funds:

- New equity fund
- Growth in deposits
- New Loans and lines of credit
 - External
 - Internal
- Repayment of outstanding credits and loans
- Interest income
- Fees and income from other services
- Other sources of funds

(b) Application of Funds:

- Growth in commercial credit
- Growth in consumer credit
- Medium and long-term loans
- Repayment of debts
- Interest expense
- Payment of fees and service charges
- Operating expenses:
 - Salary and wages
 - Equipment and supplies
 - Other operating expenses

2. Demand Analysis for New Credit.

3. Portfolio Analysis.

The portfolio analysis report is, most likely, a part of the sale negotiation documents and additional work may not be required in this area.

4. Project Identification and Evaluation Capabilities.

The "study" recommends establishment of a "unit" either within DFC or attached to other institutions such as the Export and Investment Promotion Unit, for undertaking the task of project identification and evaluation. The bank, however, would need a limited capability of its own in project evaluation in order to (i) examine the projects which are directly submitted to the bank, and (ii) review the projects submitted to the bank by the "unit", for their compatibility with the bank's policies and criteria. During the initial period of the reorganization, the Mission could provide technical assistance for the purpose of project evaluation in the following areas:

- (a) Technical expertise in agro-business, industry and tourism
- (b) Economic and market expertise
- (c) Financial expertise

5. Management Evaluation:

- (a) Review of Standard Operational Procedures
- (b) Organizational structure
- (c) Line of command and communication
- (d) Personnel policies
- (e) Training needs and program
- (f) Management and staff efficiency
- (g) Collection policies

Schedule

The evaluation and analysis, along with corresponding recommendations, can be completed within two months after the negotiation or transfer of the bank is finalized. The following expertise is required:

	<u>Specialist</u>	<u>Person /Day</u>
1. Cash Flow Analysis	Acct./Financial	10
2. Demand Analysis	Bus./Financial	10
3. Portfolio Analysis	Financial Analyst	05
4. Project Study	Bus./Dev. Banking	05
5. Management Evaluation	Management/Business	05
6. Team Supervision	Banking/Finance	10
TOTAL		<u>45</u>

Items 2, 4 and 6 can be performed by this consultant.

II. ESTABLISHMENT OF A LEASING COMPANY

The establishment of a leasing company was recommended in the "Study of the Financial System of Belize". The leasing company could be used as a means of solving the problems of restrictive loan-security and track-record requirements of the commercial banks which are the major obstacles in providing loans and credit to new projects. A leasing company would make a substantial contribution to the development of Belize's infant industries.

Short Term Technical Assistance Requirements

- (a) A study of the leasing market in Belize; by category of machinery and equipment.
- (b) A business plan, including:
 - organization
 - personnel
 - funding requirement
 - methods of financing
- (c) A study of legal and taxation issues.

Rather than being a totally separate project and/or organization, the leasing company could operate as a subsidiary to either the Development Finance Corporation or other financial institution.

Schedule

The evaluation, recommendation, and preparation of an action plan for the establishment of a leasing organization can be completed within three months and would require the following expertise:

	<u>Specialist</u>	<u>Person /Day</u>
1. Study of Leasing Market	Bus./Financial	10
2. Preparation of Bus. plan	Bus./Financial	15
3. Study of Legal & Taxation issues	Legal/Accounting	07
4. Program Supervisor	Banking/Finance	15
TOTAL		<u>47</u>

Items 2 and 4 can be carried out by this consultant.