PN-ABJ-757
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USAID/BELIZE - FINANCIAL SECTOR SURVEY

FINAL REPORT

May 31, 1989

Office of Government Services
1801 K Street, N.W.
Washington, DC 20006

Telephone 202 296 0800

Price Waterhouse

May 31, 1989

Mosina H. Jordan
A.I.D. Representative
Agency for International Development
United States A.I.D. Mission to Belize
Embassy of the United States of America
Belize City, Belize, Central America

Dear Ms. Jordan:

Re: AID/PRE - Financial Sector Development Project (FSDP)
USAID/Belize - Financial Sector Survey in Support of the CDSS

Enclosed please find five copies of the Final Report for the Financial Sector Survey, as prepared by Mr. Jeffrey Poyo and reviewed by Price Waterhouse, prime contractor under FSDP. Additional copies were forwarded to Aaron Williams, AID/LAC and Sandra Frydman, AID/PRE Project Officer.

It has been a pleasure to work with USAID/Belize on this important survey and we look forward to the opportunity of working with you again in the future as your plans for new projects in the financial sector develop.

Very Truly Yours,

Price Waterhouse

attachments

FINAL

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I. INTRODUCTION

A. Background

In support of the drafting of its Country Development Strategy Statement (CDSS), USAID/Belize sought assistance in conducting a survey of the Belizian financial sector (see Scope of Work in Appendix A). Based on a series of meetings and discussions between AID/PRE (James Dry), LAC/PS (Susan Spika, Jim Walker), USAID/Belize (Arturo Villanueva) and Price Waterhouse (Mark Camstra), AID/PRE decided to fund the engagement under the auspices of its newly-contracted Financial Sector Development Project (FSDP).

The services of Dr. Jeffrey Poyo, a consultant to Price Waterhouse, prime contractor of FSDP, were acquired and the project launched on December 5, 1988. A number of scope-clarifying meetings were also held in Belize between Jeffrey Poyo, Arturo Villanueva, and Mark Camstra (FSDP Project Manager, Price Waterhouse).

An Interim Progress Report was prepared and delivered on January 6, 1989. This report was designed to provide AID with baseline input regarding macroeconomic and institutional aspects of Belize's financial sector in support of USAID/Belize's Country Development Strategy Statement for the 1990s. It was based on a review of relevant literature and preliminary field work data gathered during three trips to Belize between December 1988 and January 1989. A Draft Final Report, containing the results of the broader financial sector survey completed during a trip to Belize in February, was issued on March 14, 1989. This Final Report incorporates consultants' responses to further comments by USAID/Belize and has been reviewed by Price Waterhouse in its capacity as prime contractor. This report is intended to be a primary source document that USAID/Belize can draw on to further develop its financial sector strategy in support of its Country Development Strategy Statement for 1990 and beyond.

B. Organization of the Report

Chapter II reviews the recent macroeconomic developments in Belize with special emphasis placed on Central Bank policies as they pertain to the financial sector. Chapter III presents the results of the financial sector survey, including a review of the commercial banking sector, the Development Finance Corporation, the National Development Foundation of Belize, and the credit unions. This Chapter also discusses the prospects of developing a stock market in Belize using the experience of the Belize Telecommunications sale of shares to the public as an example.

Chapter IV presents a synthesis of conclusions emerging from the financial sector survey, including a discussion of USAID's possible role in financial sector development in Belize in the areas of policy dialogue and institutional development. Chapter V presents recommendations regarding USAID's financial sector development strategy as part of the CDSS, based on a review of its current interventions, AID's Policy Paper on financial market development, and the conclusions derived from the financial sector survey.

II. RECENT MACROECONOMIC DEVELOPMENTS

Belize has an estimated population of 170,000, with an area of 22,960 kilometers. As such, it is one of the most sparsely populated countries in the world. The Belize economy has depended primarily on agricultural exports, with sugar having been the most important export crop in the past. Sugar has provided more than 50 percent of export earnings and has accounted for up to 70 percent of agricultural exports.

The Belize economy expanded rapidly throughout the 1970's, specializing in sugar production and manufacturing. However, beginning in 1981, the economy entered into a recession, due to a fall in the world price of sugar. Exports fell from US$82 million in 1980 to US$74.7 million in 1981, to US$ 59.8 million in 1982. The current account deficit of the balance of payments rose from 2 percent of GDP in 1979-80 to 11 percent in 1982. Real growth in GDP fell from 2.3 to 1.0 percent between 1981 and 1982, and became negative in 1983 (-1.3%).

This deep recession affected the finances of the public sector as the consolidated deficit of the nonfinancial public sector rose from 4 percent of GDP in FY 1980/81 to over 9 percent of GDP in Fiscal Year 1982/83. This enlarged deficit was the result of a decline in government revenue, which is highly dependent on international trade, and a large increase in current expenditures. The domestic banking system became the major source of financing for the public sector deficit. As a result, the growth of domestic credit outstripped the growth in liabilities to the private sector, and the foreign reserves of the Central Bank rapidly eroded. As can be seen in Exhibit II-1, the growth in domestic credit outstripped the growth in liabilities to the private sector during 1981, 1982 and 1984, with the resulting decline in net foreign assets.

Faced with a significant deficit in the balance of payments, loss of foreign exchange by the Central Bank, arrears in payment of foreign debt, and a large public sector deficit, Belize entered into a stand-by arrangement with the IMF in December of 1984. Since that time, the major policy objective of the Government of Belize has been to maintain the stability of the Belize dollar with respect to the U.S. dollar. It is believed that this policy objective will be the driving force for fiscal and monetary discipline.

Monetary Survey of Belize (BzS 000)

	Change in NFA	Change in Domestic Credit	Change in M2
1980	2,553	14,574	14,132
1981	-7,753	26,260	17,098
1982	-14,389	25,540	5,684
1983	-6,894	24,533	25,736
1984	-6,217	21,385	8,965
1985	13,206	-11,039	14,222
1986	31,457	-8,369	31,231
1987	19,908	15,105	44,037

Source:Statistical Digest, Central Bank of Belize.

Belize: SUMMARY OF BALANCE OF PAYMENT - (Millions of U.S. dollars)

	1979	1980	1981	1982	1983	1984	1985	1986	1987
CURRENT ACCOUNT	-2.5	-3.7	-4.7	-18.4	-12.4	-12.7	-8.4	3.7	-3.4
TRADE BALANCE	-40.9	-38.9	-43	-54.4	-39.8	-38.4	-41	-33.8	-43.6
EXPORTS	60.8	82	74.7	59.8	65.2	72.9	64.4	74.5	85.5
IMPORTS	101.7	120.9	117.7	114.2	105	111.3	105.4	108.3	129.1
SERVICES (NET)	15.7	13.2	14.1	11	9.3	4.5	4.2	10	7.8
TRANSFERS	22.7	22	24.2	25	18.1	21.2	28.4	27.5	32.4
CAPITAL ACCOUNT	-0.2	5.5	2.4	18.2	2.7	4	18.5	7.2	12.4
PUBLIC SECTOR	12	4.9	7.8	10.4	7.3	2.6	14.9	6.5	7.7
PRIVATE SECTOR (1)	-12.2	0.6	-5.4	7.8	-4.6	1.4	3.6	0.7	4.7
EXCEPTIONAL FINANCING					5.1	1.2	-3.7		
CHNG OFFICIAL RESERVES (2)	2.7	-1.8	2.3	0.2	4.6	7.5	-6.4	-10.9	-9

(1): Including net errors and omissions.

(2): Increase (-).

In order to strengthen net foreign reserves, the Central Bank, beginning in 1985, adopted a financial program designed to limit the growth of domestic credit of the banking system and to promote the growth of private sector savings. In order to limit the growth of bank credit, the cash reserve requirement was raised from 7 to 9 percent of average bank deposit liabilities, and the liquid asset ratio was raised from 20 to 30 percent as of April 1985. Minimum interest rates on financial instruments in the banking system, including treasury bill rates, were raised significantly. The Central Bank also raised interest rates on savings accounts and time deposits by 3 percentage points in January 1985. Similarly, treasury bill rates were raised from 9.7 to 12.8 percent between January 1985 and May 1986. As a result of these increases in domestic interest rates, a large differential in favor of depositors and investors emerged, spurring the rapid growth of private sector savings.

The stabilization program implemented by Government of Belize between 1984 and 1986 was quite successful. The balance of payments deficit was reduced from 6.5 percent of GDP in 1984 to a surplus of 1.7 percent in 1986. Foreign exchange reserves increased from U.S.$9.3 million to U.S.$26.6 million by the end of 1986. The non-financial public sector deficit was reduced from 6.7 percent of GDP in FY 1983/84 to a surplus in FY 1986/87 of 1 percent of GDP. Government expenditures as a proportion of GDP declined from 36 to 33 percent over this same period. These results were achieved through a combination of increases in taxes and user fees, as well as a reduction of public enterprise operating deficits, as can be seen in Exhibit II-3. After a sharp decline in 1983, growth become quite dynamic by 1987, particularly in the service sector (tourism).

CONSOLIDATED OPERATIONS OF THE NONFINANCIAL PUBLIC SECTOR - (Millions of Belize Dollars)

	1979	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
TOTAL REVENUE + GRANTS	78.4	94.5	99.7	101.5	100.5	114	122.9	149.6	157
Revenue	64.4	81.6	86.4	84.5	84.4	105.4	114.7	135.8	146.4
Central Government	64.4	81.6	83.7	79.2	77.8	92.4	94.5	110.1	122.8
Social Security	0	0	2.7	5.3	6.6	10.4	10.6	11.1	11.5
Nonfinancial public enterprises' current surplus	0	0	0	0	0	2.6	9.6	14.6	12.1
Grants	14	12.9	13.3	17	16.1	8.6	8.2	13.8	10.6
TOTAL EXPENDITURES	104.1	108.3	122.1	132.4	128.8	129	133.5	145.6	173.2
Current Expenditures	52.7	66	78	91	91.9	92	95.2	103.1	114
General Government	51.3	64.8	76.5	86.1	87.5	92	95.2	103.1	114
Central Government	51.3	64.8	76.2	85.8	85.8	90.4	93.2	100.7	111.1
Social Security Board	0	0	0.3	0.8	1.7	1.6	2	2.4	2.9
Nonfinancial Public Enterprises' current deficit	1.4	1.2	1.5	4.9	4.4	0	0	0	0
Capital Expenditures	51.4	42.3	44.1	41.4	36.9	37	38.3	42.5	59.2
General Government	26.2	34.9	31.9	27.8	24.6	27.4	28.4	27.5	31
Central Government	26.2	34.9	31.9	27.6	24.4	27.2	28.3	27.5	30.7
Social Security Board	0	0	0	0.2	0.2	0.2	0.1	0	0.3
Nonfinancial Public Enterprises	25.2	7.4	12.2	13	12.3	9.6	9.9	15	28.2
Other	0	0	0	0.6	0	0	0	0	0
OVERALL DEFICIT	-25.7	-13.8	-22.4	-30.9	-28.3	-15	-10.6	4	-16.2
Change in Outstanding Arrears	0	0	0	0	3.9	-0.4	-4.2	0	0
FINANCING (NET)	25.7	13.8	22.4	30.9	24.4	15.4	14.8	-4	16.2
External (net)	23.6	8.6	12.9	18.3	8.3	12.6	15.8	6.5	22.8
Domestic (net)	2.1	5.2	9.5	12.6	16.1	2.8	-1	-10.5	-6.5
Banking System	1.3	4.3	9.6	12.4	15.3	8.6	-1.4	-10	-6.5
Central Bank	5.2	-2.2	13.6	0.4	14	13.5	-16.8	-18.3	1.8
Commercial Banks	-3.9	6.5	-4	12	1.3	-4.9	15.4	8.3	-8.3
Other	0.8	0.9	-0.1	0.2	0.8	-5.8	0.4	-0.5	0

SOURCE: INTERNATIONAL MONETARY FUND.

Exhibit II-4

Gross Domestic Product (Millions of Constant 1984 BZ$)

	1980	1981	1982	1983	1984	1985	1986	1987
GDP	321.3	328.7	332.1	327.7	337.2	348.7	359.3	396.7
% Growth		2.3	1.0	-1.3	2.9	3.4	3.0	12.7
Distribution by Sectors								
Primary	22.9	22.2	23.0	21.9	21.9	20.9	19.4	20.4
Secondary	21.9	22.1	21.1	20.7	20.1	19.5	19.7	20.5
Tertiary	59.6	60.0	59.8	61.1	61.7	63.5	64.9	63.2
Banking Charges	-4.4	-4.3	-3.9	-3.7	-3.7	-3.9	-4.0	-4.1

Source: Central Statistical Office

III. FINANCIAL SECTOR SURVEY

A. Introduction

The financial sector of Belize is composed of the Central Bank, four private commercial banks, a Government savings bank, a public sector agricultural development bank (Development Finance Corporation), a private micro and small enterprise credit institution (National Development Foundation of Belize) and some twenty-two individual credit unions. Two of the commercial banks are branches of foreign commercial banks (the Bank of Nova Scotia and Barclays Bank PLC). The Atlantic Bank, Ltd. is 50% owned by a Honduran investment company and 50% owned by Belizians. The Belize Bank has mixed foreign and domestic ownership. In addition to the formal financial sector, there are the usual money lenders and pawn shops which make up the informal sector. While there are no organized capital and securities markets in Belize per se, the recent sale of shares of the Belize Telecommunications, Ltd. to the public has spurred interest in the possibility of developing an organized exchange.

This Chapter presents the results of a survey of the Belizian financial sector with a view to determining what role USAID might play in advancing its development in the areas of policy dialogue, institutional development and financial instruments. Section B reviews the commercial banking sector, including an assessment of Central Bank policies as they affect this sector, an analysis of the profitability of the commercial banks, and a discussion regarding the experience with the commercial bank rediscount fund. Section C reviews the Development Finance Corporation, its institutional problems, the role of the World Bank Credit Project, and the possible role USAID might play in the area of policy dialogue working to supplement the efforts of the World Bank. Section D analyzes the National Development Foundation, the markets it serves, its degree of financial self-sufficiency, whether or not it should strive to "graduate" its client base, and the extent to which it should focus on training and technical assistance efforts. Section E reviews the credit unions in Belize and the potentially constructive role these could play in injecting competition into the financial sector and servicing the financial intermediation needs of an important--and often neglected--portion of the population. Section F discusses the feasibility of developing an organized securities exchange in Belize.

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B. The Commercial Banking Sector

1. Introduction

The recent developments in the financial sector of Belize cannot be properly analyzed without taking into account the overall macroeconomic environment of the country. Central Bank policies with respect to reserve requirements, liquidity ratios, treasury bill and minimum deposit rates must be viewed within the context of this institution's role as regulator of the financial markets, as well as its role as monetary authority whose objective is to control domestic inflation and maintain the stability of the exchange rate.

Following the signing of the International Monetary Fund stand-by agreement, the Central Bank raised minimum deposit and lending rates in January of 1985. As a result, the weighted average nominal deposit rates (savings and time deposits) rose from 6.5 percent per annum at the end of 1984 to 9.2 percent. Similarly, the differential between 3-month treasury bill rates in Belize and the United States rose from 1.8 percent to 5.6 per cent per annum in favor of Belize between the end of 1984 and the end of 1986 (see Exhibit III-1).

The policies of the Central Bank were designed to "deepen" the financial markets. (The "deepening" of financial markets refers to the more rapid growth of the financial markets relative to the overall growth of the economy.) The main objective of the interest rate policies of the Central Bank has been to stimulate the growth of domestic financial assets in the portfolios of the public relative to non-financial assets and foreign deposits. The growth of the commercial banking system as measured by the ratio of M2 to GDP grew from 50.5 percent in 1984 to 59.8 percent in 1986. Preliminary figures for the GDP for 1987 suggest that this ratio may have declined as a result of a very rapid growth of the economy during that year (see Exhibit III-2).

Despite the rise in reserve requirements and liquidity ratios, excess liquidity in the commercial banking system rose significantly between 1985 and 1986 as can be seen in Exhibit III-3. At its peak, excess liquidity reached 13.5 percent of total assets of the banking system in July of 1987, and some banks began to turn away time deposits as the option of offering lower rates was not available.

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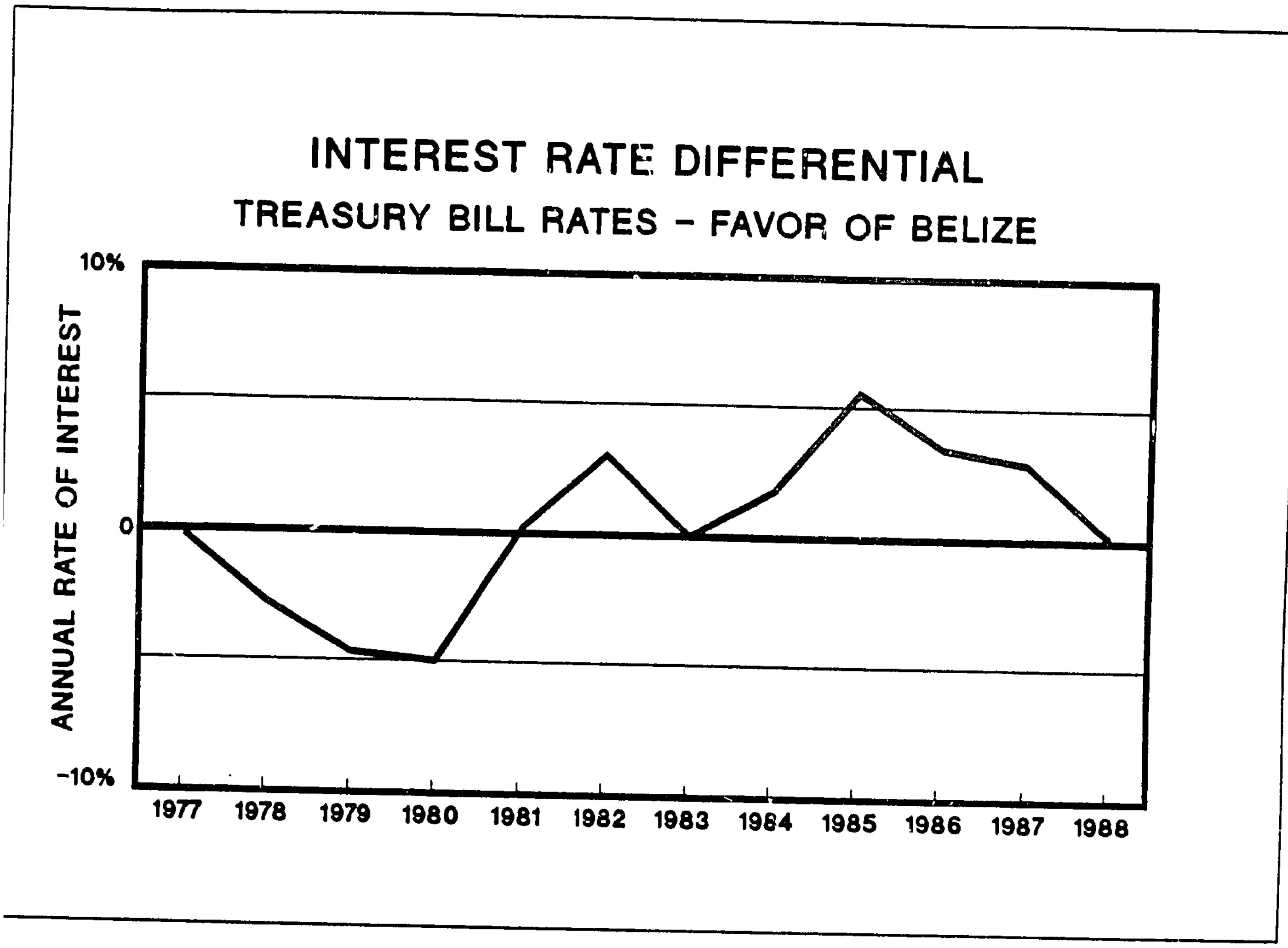

INTEREST RATE DIFFERENTIAL
TREASURY BILL RATES - FAVOR OF BELIZE
10%
0
-10%
ANNUAL RATE OF INTEREST
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988

Monetary Survey of Belize - Relative Growth of the Financial Markets

	1980	1981	1982	1983	1984	1985	1986	1987
M1/GDP	14.5	15.4	13.9	14.5	16.9	18.1	20.3	20.3
M2/GDP	36.7	42.2	45.0	51.8	50.5	53.7	59.8	49.4

Source: Statistical Digest, Central Statistical Office.

NOTE: GDP figures for 1986 and 1987 are preliminary.

Distribution of Commercial Bank Loans to Agricultural Sector

	1980	1981	1982	1983	1984	1985	1986	1987
ugar	52.2	55.2	47.0	46.6	39.3	27.5	31.5	21.2
itrus	10.4	8.8	14.1	25.7	31.4	49.8	38.4	22.9
ice	11.4	12.6	4.8	5.4	10.5	0.2	0.0	0.0
ananas	14.9	12.5	18.7	8.2	10.5	1.5	6.9	23.9
attle & airy	3.1	3.6	6.0	4.0	5.2	7.3	9.0	4.3
oultry & ggs	.7	.5	1.1	1.8	2.6	2.7	1.3	1.6
oney	.4	.4	.2	.3	.3	.2	.8	.3
and Prep.	1.5	.7	.9	3.3	1.1	.2	.1	9.3
eneral	5.4	5.7	7.[illegible]	4.6	7.2	10.6	12.0	16.5

ource: Statistical Bulletin, Central Bank of Belize, Sept 1988.

Excess Liquidity of Commercial Banks as a Percentage of Total Assets (December 31st of Each Yea

1983	1984	1985	1986	1987	SEP. 1988
8.59	6.16	3.78	9.54	8.18	3.47

urce:Statistical Digest, Central Bank of Belize, Sep.1988.

The banks had powerful incentives to accumulate liquid assets rather than loan out the mobilized deposits. First, within the agricultural sector, the sugar industry, which had absorbed 52.2 percent of the banks' agricultural portfolio in 1980, was only absorbing 21.2 percent of it by 1987. The growing sectors within the agricultural sector included citrus, bananas, cattle and dairy and other minor crops. At the end of 1980, loans to agriculture represented 26.2 percent of the banks' portfolio, whereas commercial activities absorbed 27.4 percent. The next in importance were manufacturing with 13.6 percent, personal loans with 10.4 percent, and construction with 10.1 percent. By 1987 agriculture had declined to 13.1 percent, commercial activities had risen to 31.1% and manufacturing had fallen to 8.7 percent. Personal loans and construction stood at 9.3 and 14.3 percent, respectively.

Belize's economy has been going through an important structural transformation as a result of the weakening of international sugar prices and the restrictions placed on preferential access the U.S. market. This transformation, in turn, required a fairly significant reorientation of the banking sector's loan portfolio which, even under the most favorable conditions, would require a few years to work itself out. However, during this period, Belize had fallen into a major recession which, while caused by a number of external factors, was in all likelihood made more pronounced as a result of the stabilization program which was necessary to address the financial imbalances on the fiscal side.

In addition to the decline in the sugar sector, the combination of higher interest rates and the recession generally reduced the demand for credit. Furthermore, the relative high interest rates on treasury bills rendered other types of lending activities relatively unattractive. However, as of September 1988, the liquidity situation in the commercial banking sector had reversed itself, and by the beginning of 1989 the banks' balance sheets began to return to the long-term trends regarding liquid reserves.

During the period of adjustment between 1985 and 1987, the demand for credit declined sharply, while the supply of deposits rose. In 1986 and 1987 when per capita income was static a rise in deposit rates led to a significant growth in the volume of deposits in the banking system, suggesting that the interest elasticity of demand for deposits in Belize was relatively high.

The main purpose of the high deposit rates was to encourage savings and to curtail consumption as part of the adjustment process. This was to be achieved by encouraging the channeling of funds into the financial sector. Due to the concern about the growth in domestic credit, however, treasury bill rates were also increased to sterilize part of the growth in deposits in the commercial banking system. After raising deposit rates in January 1985 and maintaining them until December 1986, weighted average deposit rates came down to 7.2 percent at the end of 1987, and to 5.5 percent by September of 1988. Similarly, the differential in treasury bill rates which had reached almost 6 percentage points, has been reduced to under 1 percent by August of 1988.

Conversations with Central Bank officials indicated that the major purpose of the liquidity ratio and interest rate policies is to exercise monetary control over the financial sector, and that these were likely to be relaxed soon. While the Central Bank favors a policy in which the supply and demand for credit determine the rates of interest, there is some concern on the part of Central Bank officials regarding the degree of competition in the banking sector, particularly in view of the size of the market. If the commercial bank sector in Belize does in fact operate in an oligopolistic manner, the margin between deposit and loan rates could increase disproportionately, driving risk-adjusted deposit rates below international market levels. There is thus a concern that, absent a Central Bank-imposed minimum deposit rate, deposits would rapidly leave the domestic banking system. If these concerns are true, then market-determined interest rates might not be an appropriate policy.

The non-competitiveness of the banking sector may be changing, however, as there is a perception in Belize that the Belize Bank has injected a degree of competition into the market. The group of investors that formed the Bank of Belize felt that the commercial banks in Belize behaved in an oligopolistic manner, and that their conservative policies were inhibiting economic growth in Belize. This bank appears to have been following a very aggressive strategy in the area of deposit mobilization, and has reportedly been taking on credit risks which the other banks might not have been willing to take. Since it is not possible to analyze the portfolio of each bank in relation to their lending policies, it is difficult to tell whether the Bank of Belize is in fact significantly different than the others in terms of its lending policies. However, if it is successful at opening new markets and improving its profitability as a result of its more aggressive policies, the other institutions will likely have to follow its lead.

Exhibit III-4 presents comparative deposit rates of the commercial banking sector in early 1989. According to some bankers, the high minimum deposit rates set by the Centr~~ Bank limits their ability to mobilize longer-term deposits because the large term premium would significantly reduce their interest margins. Given that short-term interest rates in the United States are rising, and the liquidity in the banking system is declining, one would expect short-term domestic rates to rise above the floor set by the Central Bank, making the removal of controls more feasible.

2. Profitability Analysis of Commercial Banks

The developments over the past four years have had a profound effect on the profitability of the commercial banks. As Exhibit III-5 shows, the consolidated return on equity (ROE) of the commercial banks declined from 22.2 percent in 1984 to only 11.2 percent in 1985. Additionally, the banks' net interest margin declined from $8 million to $6.5 million, which represented a decline from 3.63% to 2.95% of their net interest income ratio. Interest paid to depositors rose from 8.0 percent in 1984 to 10.6 in 1985, and 10.9 in 1986 as a result of Central Bank policies. The banks' equity multiplier declined from 21.2 to 17.8 during this period.

This decline in profitability was the result of two factors. First, increased financial costs reduced banks' profit margin (net income after taxes/gross income). And second, the enforcement of Article 8 of the Banking Ordinance, which stipulates that a bank's capital and reserves should be equal to at least 5 percent of its deposit liabilities, produced a decline in the banks' aggregate equity multiplier (average assets/average equity).

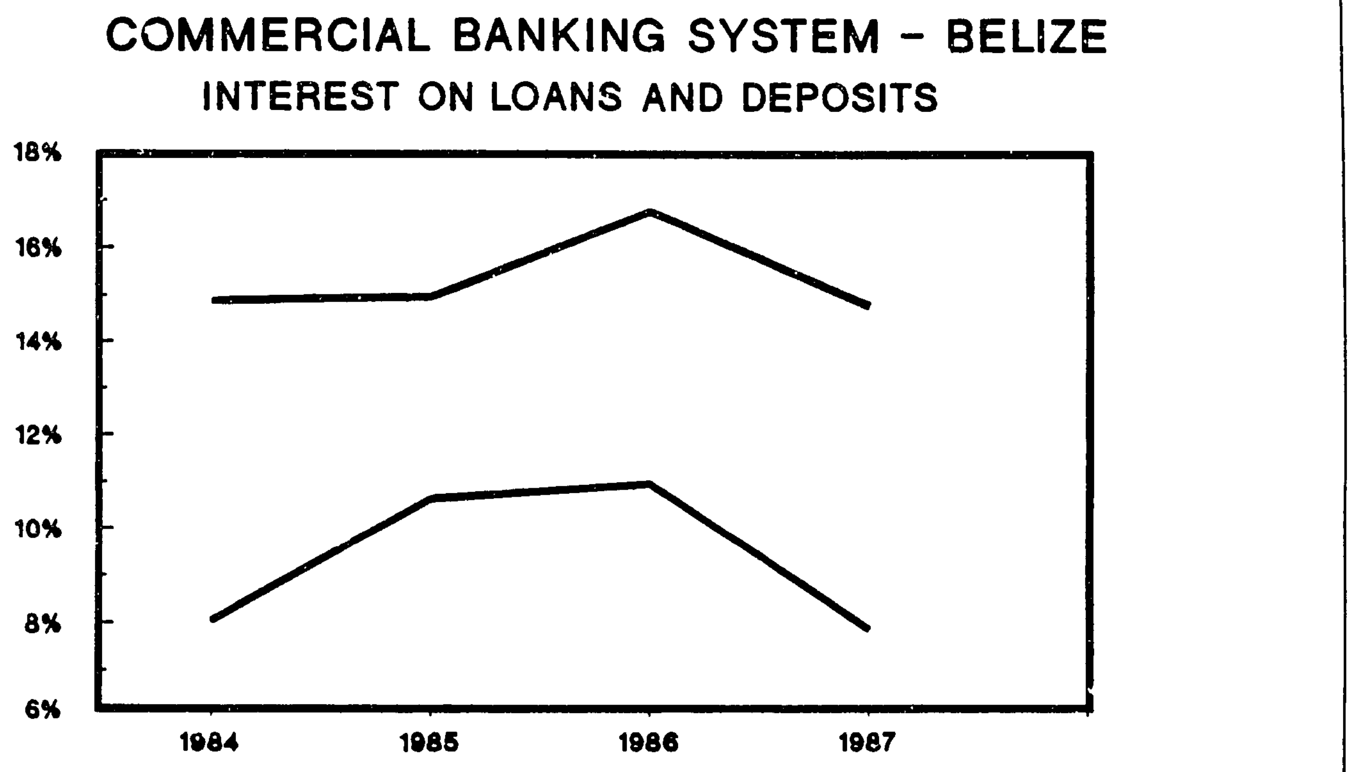
Between 1986 and 1987 the commercial banks' profitability recovered to 16.6 and 17.4 percent return on equity (Exhibit III-9). Despite the decline in interest income due to substantial excess liquidity, the banks' were able to increase their profitability through a combination cost control and greater leverage, which led to an increase in net interest income. This occurred despite a fall of over 2 percent in asset utilization (income/average assets), brought about by a change in the banks' asset composition. Although the interest rate paid to

Exhibit III-4

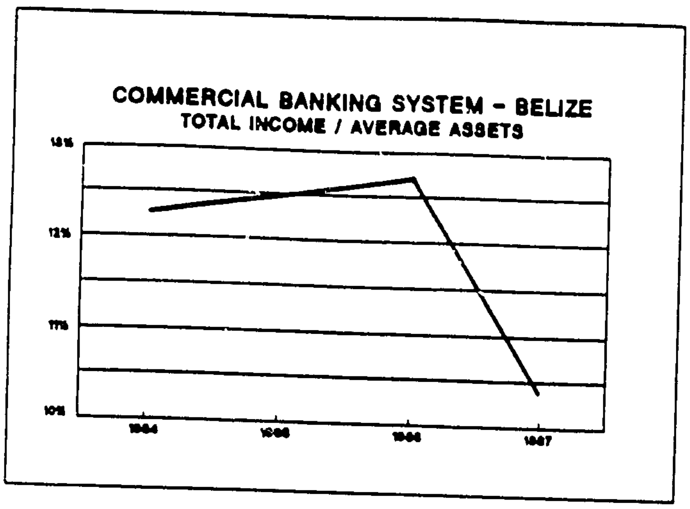
Deposit Interest Rates Commercial Banking System
(January 20, 1989)

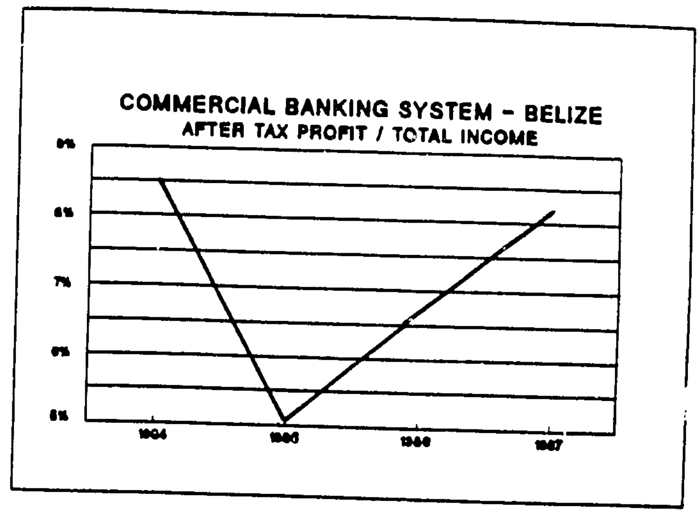
	Belize Bank	Atlantic	Nova Scotia	Barclays
Passbook	4.5	4.5	4.0	4.5
Premium Passbook	6.0	6.0	6.0	6.0
Time Deposits	--	--	--	--
30 Days	--	--	--	--
90 Days	7.0	7.0	7.0	7.0
180 Days	8.0	7.0	8.0	8.0
1 Year	8.5	8.5	8.5	--
> 1 Year	--	9.0	--	--

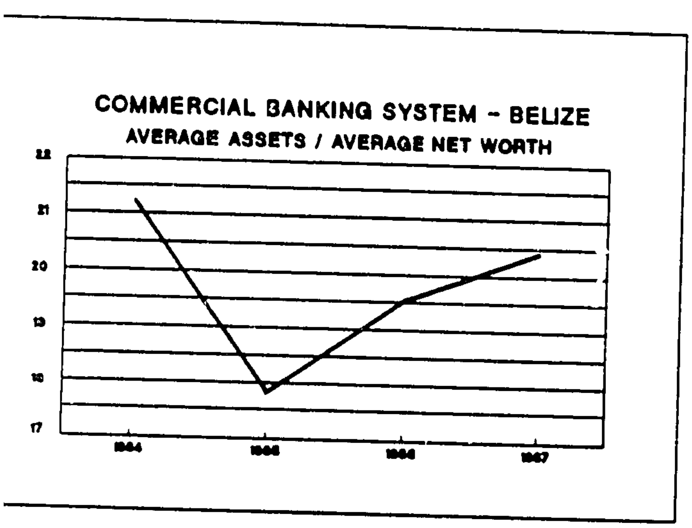
Source: Telephone inquiries by author

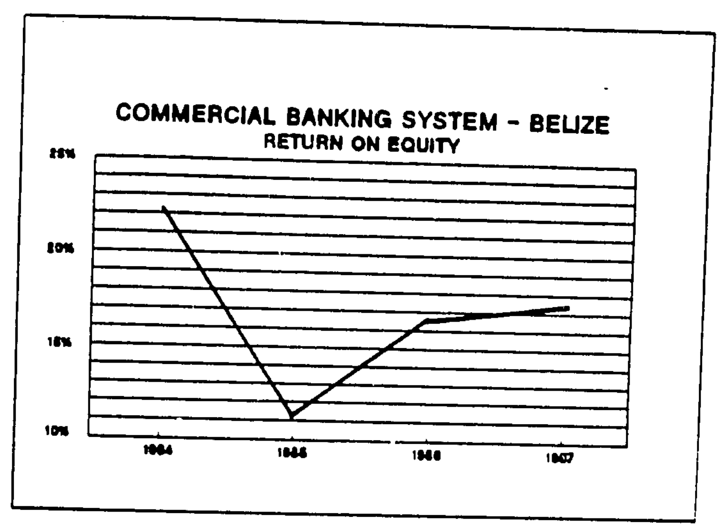

COMMERCIAL BANKING SYSTEM - BELIZE
INTEREST ON LOANS AND DEPOSITS
18%
16%
14%
12%
10%
8%
6%
1984
1985
1986
1987

15


COMMERCIAL BANKING SYSTEM - BELIZE
TOTAL INCOME / AVERAGE ASSETS


COMMERCIAL BANKING SYSTEM - BELIZE
AFTER TAX PROFIT / TOTAL INCOME


COMMERCIAL BANKING SYSTEM - BELIZE
AVERAGE ASSETS / AVERAGE NET WORTH


COMMERCIAL BANKING SYSTEM - BELIZE
RETURN ON EQUITY

CONSOLIDATED BALANCE SHEETS OF THE COMMERCIAL BANKING SYSTEM
OF Belize - (BZ$ 000)

ASSETS	DEC 1984	DEC 1985	DEC 1986	DEC 1987	SEPT 1988
CASH	4,331	4,445	5,113	4,362	3,669
BALANCES WITH					
CENTRAL BANK	15,480	16,704	17,631	21,071	18,261
OTHER LOCAL FI's	352	52	1,536	167	249
FOREIGN ASSETS	18,940	19,273	16,836	16,022	10,192
LOANS AND ADVANCES					
TO CENTRAL GOVERNMENT	14,167	16,462	12,034	7,835	4,917
TO OTHER PUBLIC SECTOR	8,337	3,801	3,032	9,046	9,445
TO PRIVATE SECTOR	130,538	121,135	119,884	146,998	182,511
GOVERNMENT SECURITIES					
TREASURY BILLS	5,256	14,452	34,449	40,441	43,359
OTHER SECURITIES	165	165	161	40	40
OTHER ASSETS	25,525	22,263	24,890	24,262	27,619
TOTAL ASSETS	223,091	218,752	235,566	270,244	300,262
LIABILITIES					
DEPOSITS					
DEMAND	28,594	27,308	30,789	39,549	44,897
SAVINGS	32,275	31,767	37,764	45,931	66,055
TIME	81,108	90,949	105,117	126,349	119,212
FOREIGN LIABILITIES					
SHORT-TERM	5,929	6,578	4,831	26,892	28,542
LONG-TERM	35,041	34,088	23,429	278	2,905
BALANCES DUE TO					
CENTRAL BANK	78	609	1,348	5,836	5,295
OTHER LOCAL FI's	824	33	1,134	127	292
OTHER LIABILITIES.	28,636	16,129	19,028	11,926	19,015
SUB-TOTAL	212,485	207,461	223,440	256,888	286,213
CAPITAL AND RESERVES	10,606	11,291	12,126	13,356	14,049
TOTAL	223,091	218,752	235,566	270,244	300,262

Source: Central Bank of Belize.

EXHIBIT III-8

CONSOLIDATED INCOME STATEMENTS OF THE COMMERCIAL BANKING SYSTEM OF Belize - (BZ$ 000)

	DEC 1984	DEC 1985	DEC 1986	DEC 1987
NCOME				
NTEREST ON LOANS	21,408	21,820	22,597	20,477
EES AND COMMISSIONS	3,428	3,801	3,930	4,358
NCOME EARNED OVERSEAS OP.	104	121	155	152
THER INCOME	2,079	1,733	2,471	927
TAL INCOME	27,019	27,475	29,153	25,914
PENSES				
TEREST PAID TO DEPOSITORS	9,212	12,502	14,645	12,210
HER INTEREST PAID	354	336	523	213
TEREST PAID ABROAD	3,839	2,484	730	894
NAGEMENT FEES & SERVICE CHARGES PAID HEAD OFFICE	182	143	248	230
PRECIATION OF FIXED ASSETS	597	478	491	300
FF REMUNERATION	4,937	5,332	5,412	5,092
HER CURRENT EXPENSES	3,245	2,870	3,876	3,767
HER EXPENSES	1,031	684	438	389
AL EXPENSES	23,397	24,829	26,363	23,095
FITS BEFORE TAXES	3,622	2,646	2,790	2,819
ES PAID	1,315	1,258	837	693
FITS AFTER TAXES	2,307	1,388	1,953	2,126
FITS TRANSFERRED ABROAD	2,492	1,421	2,474	1,126
FITS RETAINED LOCALLY	-185	406	115	664

rce: Central Bank of Belize.

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FINANCIAL ANALYSIS OF THE COMMERCIAL BANKING SYSTEM OF BELIZE

	DEC 1984	DEC 1985	DEC 1986	DEC 1987
AVERAGE LOAN PORTFOLIO	143,884	145,918	134,829	138,542
AVERAGE ASSETS	220,216	220,405	229,454	249,624
AVERAGE NET WORTH	10,376	12,353	11,741	12,230
AVERAGE DEPOSITS	114,670	117,689	133,810	155,369
ELASTICITY OF DEPOSITS		0.105	4.099	-0.353
AVERAGE LIABILITIES	209,840	208,058	225,405	237,394
ASSET UTILIZATION	12.27%	12.47%	12.71%	10.38%
PROFIT MARGIN	8.54%	5.05%	6.70%	8.20%
EQUITY MULTIPLIER	21.22	17.84	19.54	20.41
RETURN ON EQUITY	22.23%	11.24%	16.63%	17.38%
RETURN ON ASSETS	1.05%	0.63%	0.85%	0.85%
NET INTEREST MARGIN (NIM)	$8,003	$6,498	$6,699	$7,160
(NIM)/ AVERAGE ASSETS	3.63%	2.95%	2.92%	2.87%
INTEREST ON LOANS	14.88%	14.95%	16.75%	14.78%
INTEREST PAID ON DEPOSITS	8.03%	10.62%	10.94%	7.86%
INTEREST PAID ON LIABILITIES	6.39%	7.36%	7.05%	5.61%
INTEREST MARGIN:	8.49%	7.59%	9.71%	9.17%
OPERATING COSTS/AVERAGE ASSETS	4.54%	4.31%	4.56%	3.92%

Source: Calculations by Author.

depositors fell from 8.95 percent in 1986 to 6.42 percent in 1987, the net interest income ratio of the commercial banks did not improve (from 2.92 in 1986 to 2.87 in 1987). This was due to a decline in interest income of Bz$1.7 million, caused by the excess liquidity. However, during the same period, the banks' combined operational costs as a proportion of average assets declined from 4.6 percent to 3.9 percent. Moreover, their financial leverage increased significantly, reaching the levels they had experienced in 1984. The banks' average capital and reserves as a proportion of average assets fell from 7.55 percent in 1986 to 4.88 percent in 1987.

The commercial banks in the aggregate are already highly leveraged, and further expansion here could prove dangerous. Although the equity multiplier (EM) was reduced from 21.1 to 17.8 between 1984 and 1985, it returned to the very high level of 20.4 percent by the end of 1987. Similarly, greater economies in operating costs would appear difficult to obtain given the size of the financial markets.

It is evident that the excess liquidity in the banking sector had a negative effect on banks' profitability. In order to regain the levels of profitability the banks attained in 1984, they will have to expand their loan portfolio into the growth sectors of the economy (tourism, citrus, bananas, construction). While the commercial banks' portfolio restructuring efforts have perhaps not been as rapid as expected, this has most likely been less a result of their conservatism than the relative incentives present in the financial sector and in the economy in general between 1982 and 1986. Active competitive pressures, however, will tend to accelerate this process.

Further declines in deposit rates are unlikely since world interest rates are rising. The Central Bank will allow deposit rates to float once the deposit floors are no longer necessary to keep depositors' funds in the domestic banking system. However, the Central Bank is likely to reimpose minimum deposit rates if the banks' operational habits drive deposit rates below world levels.

3. Commercial Bank Rediscount Fund

The general belief that the commercial banks were too conservative, and that they would not get involved in long-term

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project lending because of an imbalance in the duration of their assets and liabilities, led USAID to develop The Commercial Bank Rediscount Fund (Project No. 505-0005). The purpose of this fund was to encourage commercial banks to make medium to long-term loans to projects, and thereby more rapidly redirecting their portfolios toward non-traditional export crops, by providing them with Central Bank guarantees.

The reasons for the slow disbursement of these funds, and the eventual de-obligation of the remaining funds, has already been sufficiently discussed in other studies. However, it is interesting to note that of the ten projects financed under this scheme, amounting to Bz$ 5.72 million, three have failed, putting Bz$ 2.51 million, or 43.8 percent, of the funds lent at risk. All observers agree that these projects were mismanaged, reinforcing the conclusion that, ultimately, the success or failure of any project rests primarily upon administrative capabilities of the owners and managers, and not necessarily on the financial projections or the project evaluation techniques applied.

In interviews held at the commercial banks and the Central Bank, the view was repeatedly expressed that the loan guarantees provided on the part of the Central Bank may have influenced the care taken in the analysis of these loans. The problem of excessive risk taking (moral hazard) which is introduced in credit programs with loan guarantees appears to be a significant problem; however, whether or not this was the case with this fund is difficult to ascertain.

In the opinion of most bankers, the technical capacity to analyze projects does not constitute a major obstacle to lending in the agricultural sector. Two of the institutions are branches of major international banks. It is important to note, however, that there is a fundamental difference between commercial banking, where the emphasis is on relatively safe, short-term lending to self-liquidating commercial transactions with a view to protecting depositors' funds, and investment or development banking, where the emphasis is on relatively long-term, cash flow-based project finance.

While the commercial banks in Belize may possess the technical capacity to carry out formal analyses of projects, they may require technical assistance to improve their risk evaluation capabilities, as this is not the traditional role of commercial banks.

An area where assistance in enhancing the commercial banks' ability to analyze projects and make sound long-term loans is the agricultural sector, where structural changes are taking place to develop exports of agricultural crops which are relatively new to Belize.

The efforts of the Belize Agribusiness Company (BABCO) serve as an example. BABCO has been responsible for developing technologies in the production, processing, and marketing of agricultural commodities as an alternative to sugar cane. So far, BABCO has not been successful in convincing the farmers to take the risks of crop diversification themselves. Some efforts have been made in the area of winter vegetables by BABCO and others (financed by the Commercial Bank Discount Fund), although these have proven generally unsuccessful to date. Indeed, although tropical fruits and some vegetables appear to have a promising future, the evaluation team of the Commercialization of Alternative Crop Project (AID/LAC Project Number 505-0008), states that:

> All of the crops mentioned above must have more intensive commercial trials on farmers' fields, and replications must be scientifically conducted and verified.

The efforts on the part of the commercial banks to try to identify, analyze and finance viable agricultural export projects--an area of potential growth for Belize--should be encouraged by USAID, as they represent an attempt to find areas of economic growth to finance on a long-term basis.

4. Term Lending by the Commercial Banking Sector

The commercial banking sector depends upon short-term deposits to fund its loan portfolio, and as a consequence the interest rate risk of concentrating a large proportion of their portfolio in loans with an average maturity of over 5 to 10 years can indeed be great. Some bankers expressed the opinion that, if short-term interest rates were to come down, they could mobilize longer-term deposits, which would facilitate a lengthening of the term of their loan portfolio. However, interest rates in the world market are rising, and since the large rate differential which existed at the end of 1985 has evaporated, it is not likely that short term rates in Belize will decline from their present levels.

The commercial banks are currently providing longer-term financing (5-7 years) to borrowers possessing a good track record and adequate collateral, despite the fact that the banks do not have deposits of this length. Given the constraints to term lending in the commercial banking sector, and the problems facing the Development Finance Corporation, it is still relevant to ask whether sufficient levels of term financing will be made available to the productive sectors in the years ahead, particularly the faster-growing sectors.

This raises the issue of creating a specialized institution, such as a private development bank, to take on projects whose risk characteristics the commercial banks are not willing to accept, or to complement the lending activities of the commercial banks by developing joint loans where the development institution bears those elements of risk that the commercial banks are unwilling or unable to bear. Given the small size of the financial sector in Belize, and the relatively large number of financial institutions which already make up the sector, it is questionable whether the creation of a new private institution specifically for longer-term, high-risk projects is a viable proposition.

C. Development Finance Corporation

The Development Finance Corporation (DFC) is a public sector development bank which was founded in 1963. This institution suffers from the same types of difficulties as other public sector agricultural development banks around the world. The DFC depends almost entirely upon external donor funds guaranteed by the Government of Belize. It is the only source of term credit for small and medium farmers in the country, and has played an important role in the diversification of exports away from sugar. The DFC nevertheless has some serious administrative and financial problems which create significant obstacles to its acting as an efficient financial intermediary.

The World Bank is considering providing US$7.8 million to Belize for agroindustrial lending and technical assistance as it relates to the DFC. The main objectives of this project are to:

- Strengthen the agricultural financial rediscount facility and financial services to the rural population through the private banks and the DFC

- o Improve the financial conditions and the DFC
- o Improve the balance of payments through diversification of agricultural exports.

The credit portion of the World Bank Project is a repeat of USAID's Commercial Bank Rediscount Fund Project without the restrictions placed on types of institutions or crops. Given the elimination of the substantial excess liquidity in the financial sector, and the participation of the DFC within this project, there may be less of a problem in the drawdown of these resources. There is no credit guarantee contemplated in this credit fund.

The institutional strengthening component of this project is directed primarily to "improve the efficiency of the DFC as a channel for credit delivery" and "place DFC on a sound financial basis." These objectives are to be attained through technical assistance in traditional banking operations, which may not necessarily address the problems related to the political economy of this institution.

Many of the inefficiencies which plague the DFC stem from the fact that its strategic and operational objectives are shaped by political rather than market-based criteria. Although domestic politics are of importance in explaining this outcome, no less important are the actions of donor agencies, which have usually not placed much emphasis upon the profitability, operational efficiency or financial viability of this type of institution. Lenders have been generally concerned with limiting the financial margin obtained by the intermediary in order to transfer the largest subsidy to the ultimate borrower, and have imposed costly and inefficient supervision requirements on these institutions, which increase its operating and transactions costs. The fact that these institutions generally do not have a credit policy but a vast menu of externally-funded credit lines, each with its own set of specific requirements, is a function of the lack financial autonomy which results from the lack of domestic resource mobilization.

In view of the structural changes taking place in the economy of Belize, there is a need for a financial intermediary which will finance start-up projects in the agricultural sector whose potential for success are reasonable, but which lack the necessary collateral. In addition, there may be important social benefits in the demonstration effect for the banking sector provided by financing new projects, where the perceived risk is high.

The DFC should not attempt to service the smallest of the agricultural borrowers directly, but should serve as a financial wholesaler in the rural markets. The low population density makes opening branch offices extremely costly. The DFC should instead endeavor to serve as a bridge between, for example, rural credit unions and the National Development Foundation of Belize, as well as other elements of the formal and informal financial sector.

USAID/Belize could play an important role in the area of policy dialogue with the Government of Belize by supplementing the efforts of the World Bank to make the DFC a more complete financial intermediary, and to ensure that the World Bank's efforts do not result in another recapitalization of a moribund institution. USAID could, for example, support efforts to establish clear objectives and measurable operational guidelines which serve to guide and evaluate the performance of the institution, and to obtain from the GOB stricter regulations to protect the DFC from future political intrusion. Areas of discussion which USAID may wish to emphasize include:

- Deposit mobilization
- Minimum returns on equity
- Administrative autonomy (budgeting, salary levels, credit policies)
- Measures of operational efficiency
- An intensive loan follow-up system, including "workout" and other delinquency measures

D. The National Development Foundation of Belize

The National Foundation of Belize (NDFB) was founded in 1983 with support from USAID as a non-profit micro and small enterprise credit and training program. The first loans under this program were issued in April 1984. The Foundation has been successful in reaching a particular segment of the population that does not have adequate access to the formal financial sector.

The NDFB financial development has generally been satisfactory to date. By the end of FY 1987, after three years of operation, operating income covered approximately 34 percent of total expenditures. The NDFB's portfolio has grown by a factor of ten between September 1984 and September 1987, with an acceptable delinquency record of about 10 percent. The delinquency figures are unlikely to be sustained over time, however, as the Foundation calculates its delinquency ratio as the amount of principal in arrears divided by total loans disbursed since the institution's inception. Between interest income and administrative fees, the Foundation is earning less than 15 percent per year on its portfolio, and its financial costs are insignificant because most of its loanable funds are grants.

The NDFB's operating costs as a proportion of its total assets has come down from 38 percent in 1986 to 31 percent in 1987. Operating costs are nevertheless still too high to be covered by the Foundation's financial margin (total income as a proportion of total assets is less than one third this figure). A crude measure of the elasticity of the operational cost with respect to the growth in the portfolio indicates that the institution has significant economies of scale yet to exploit.

The Foundation's objective is to become self-sufficient. As a consequence, the NDFB must resolve a potential dilemma between its role as a financial institution and that of a training center. Although within the philosophy of the Foundation training is viewed as an essential element in maintaining a low delinquency record, experience in various countries around the world suggests otherwise. This is not to say that training and technical assistance may not be important for the growth and betterment of the Foundation's clientele, simply that it is not a precondition for success as a financial intermediary. Business training may have very important social benefits, and both the Government of Belize as well as the donor agencies may consider it a worthwhile activity to fund. However, the Foundation's financial margin is not sufficient to cover both the increased financial costs of accessing non-subsidized sources of credit as well as substantial training costs.

Many of the micro and small business credit programs stress the concept of "graduating" the clients of this program into the formal financial markets. Even if this were possible, and experience in other countries suggests that it is not, this is

COMPARATIVE BALANCE SHEETS OF THE NATIONAL DEVELOPMENT FOUNDATION OF Belize - BZ$

	SEP 1984	SEP 1985	SEP 1986	SEP 1987
CASH	100	17,693	6,369	3,879
BANK	69,985	148,113	122,001	195,048
ACCOUNTS RECEIVABLE	473,110	9,342	61,398	112,963
LOAN PORTFOLIO	82,358	335,625	580,901	853,457
PREPAYMENTS	620	567	3,056	1,053
TOTAL CURRENTS ASSETS	6[illegible]6,173	511,340	773,725	1,166,400
FIXED ASSETS (NET)	44,768	44,486	42,314	36,568
TOTAL ASSETS:	670,941	555,826	816,039	1,202,968

	SEP 1984	SEP 1985	SEP 1986	SEP 1987
BANK OVERDRAFT		22,647		
ACCOUNTS PAYABLE	343	759	225	663
TOTAL CURRENT LIABILITIES	343	23,406	225	663
EQUITY				
FUND BALANCES				
USAID/OPG		8,942	7,227	1,643
Loan Fund		378,658	378,658	378,658
PADF Commodities Fund		57,699	62,909	62,909
Fund raising		37,950		
Retained Earnings				
Balance 1983/84		5,537		
1984/85		43,634	23,843	53,933
IAF			297,375	357,375
GOB			20,000	320,000
Other Funds			25,802	27,786.55
TOTAL FUND BALANCES	670,598	532,420	815,814	1,202,305
TOT LIAB AND CAPITAL	670,941	555,826	816,039	1,202,968

Source: National Development Foundation of Belize.

COMPARATIVE INCOME STATEMENTS OF THE NATIONAL DEVELOPMENT FOUNDATION OF BELIZE - BZ$

	SEP 1984	SEP 1985	SEP 1986	SEP 1987
EXPENDITURE				
USAID Operations Fund Grant	162,055	220,345	90,162	205,584
NDFB Funds	3,283	3,273	104,815	20,800
Interest Income	1,967	25,195	53,781	94,868
Administration Fees	1,804	6,681	8,232	10,713
Other Income	2,100	9,860	4,723	620
IAF Operations Fund (TAT)			2,304	4,879
FIF Operations Fund				5,535
TOTAL INCOME	171,209	265,354	264,017	342,999
EXPENDITURE				
OPERATING COSTS	165,672	221,720	257,014	287,168
PROFITS (LOSSES)	5,537	43,634	7,003	55,831

Source: National Development Foundation of Belize.

TABLE: 4.3: FINANCIAL ANALYSIS OF THE NATIONAL DEVELOPMENT FOUNDATION OF BELIZE

	SEP 1984	SEP 1985	SEP 1986	SEP 1987
AVERAGE ASSETS	335,470	613,383	685,932	1,009,503
AVERAGE PORTFOLIO	41,179	208,991	458,263	717,179
OPERATING COST/ASSETS	49.38%	36.15%	37.47%	28.45%
OPERATING INCOME/EXPENDITURES	2.28%	14.38%	24.13%	36.77%
INTEREST INCOME/PORTFOLIO	9.16%	15.25%	13.53%	14.72%

Source: Calculations by Author.

not necessarily an advisable course of action. The primary reason that the commercial banks do not service this market segment is because of cost factors, not necessarily the risk of default. Graduating their least costly and risky clients to the commercial banks places their own financial viability at risk. USAID should instead strive to "graduate" the Foundation from subsidized sources of credit and donations so that it can become integrated into the formal financial sector. This would, however, imply a significant increase in its cost of money, which at present the institution is not able to cover.

The Foundation should strive to maintain financial "transparency" between its financial and training services so as to clarify any cross-subsidization that may be taking place between the two components. If training costs can be covered by user fees and external donations, then these service could be continued. However, if no external subsidization were forthcoming, financial transparency becomes important to assure that the training activity does not undermine the viability of the financial service component. USAID could play an important role in linking this institution with other USAID-funded activities in the rural areas so that the NDFB can serve as a more effective financial intermediary. One possible source of assistance in this area is the International Executive Service Corps (IESC), which has carried out a number of similar training-type assignments in support of the growth of NDFs.

E. Credit Unions

There are approximately twenty-two credit unions operating in Belize, most of which are quite small. While it was not possible to carry out an in-depth analysis of each individual credit union, it is fair to say that, based on experience in other Central American and Caribbean nations, the credit unions in Belize could play a very constructive role by injecting much-needed competition into the financial sector, and thereby making it more resilient and responsive to the needs of the market. This could be particularly true in the case of Belize where, because of the low population density, it is difficult to provide the rural population with the benefits of financial intermediation. Neither the commercial banks nor the DFC are in a position to effectively service this segment of the population.

The resources the credit unions control are not insignificant. Exhibit III-12 provides some aggregate data on a sample of sixteen credit unions. In aggregate terms, these

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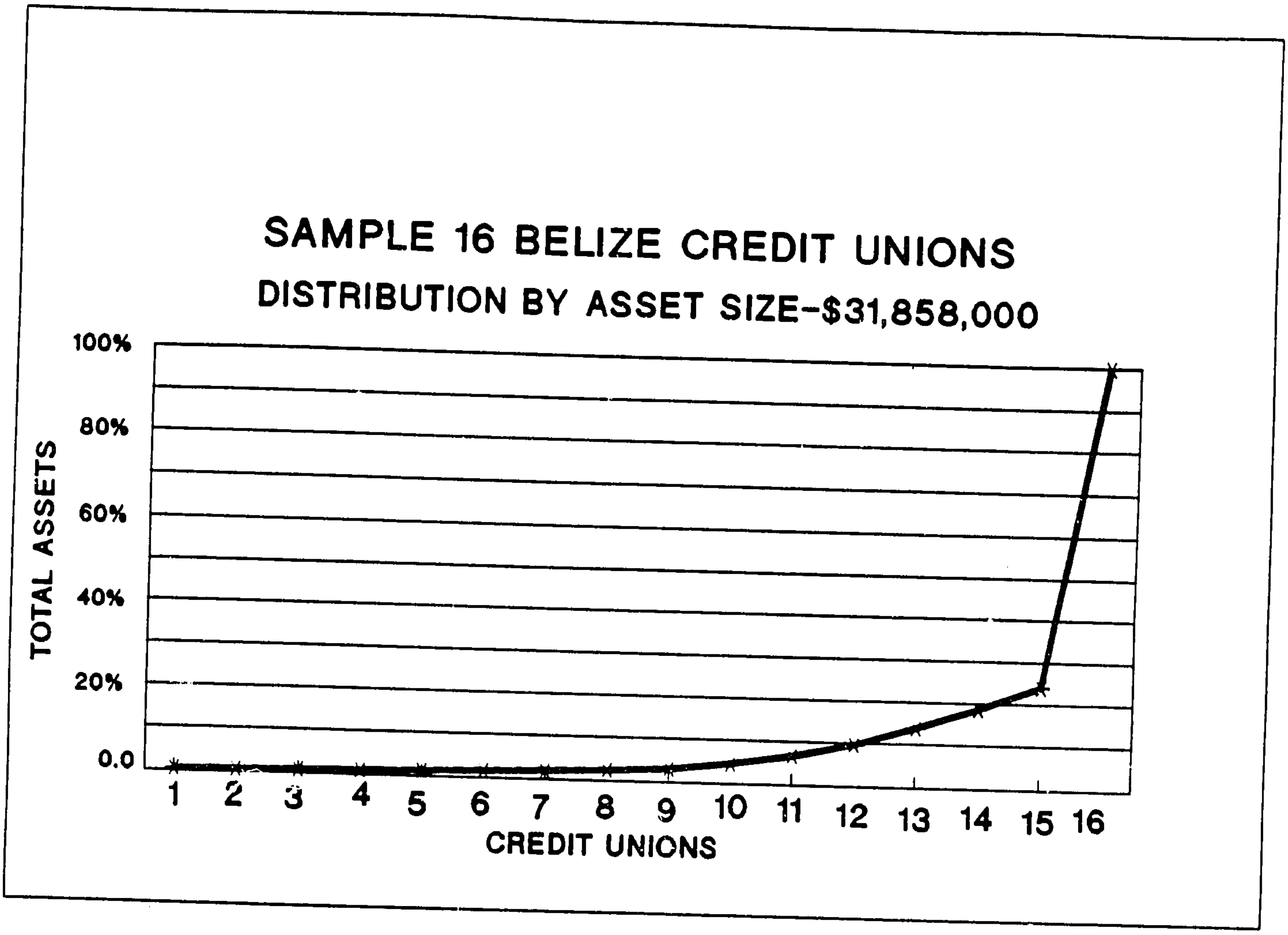
SAMPLE OF CREDIT UNIONS IN BELIZE- MARCH 31, 1988 (Belize Dollars).

	LOCATION	LOANS	Distr	ASSETS	Distr
POLICE	Belize City	100,150	0.4%	111,028	0.3%
LA ESPERANZA	Orange Walk	69,018	0.3%	76,171	0.2%
GOOD FELLOWS	Stan Creek	9,477	0.0%	10,505	0.0%
MOUNT CARMEL	Cayo	597,878	2.2%	714,468	2.2%
HUMMINGBIRD	Cayo	53,600	0.2%	67,359	0.2%
FRANCIS XAVIER	Corozal	1,307,896	4.8%	1,506,296	4.7%
ST JOSEPH	Toledo	69,937	0.3%	84,813	0.3%
MUN. EMPLOYEES	Belize City	15,587	0.1%	24,749	0.1%
CIVIL SERVICE	Belize City	1,143,155	4.2%	1,366,487	4.3%
LA INMACULADA	Orange Walk	840597	3.1%	973,576	3.1%
HOLY REDEEMER	Belize City	21,030,043	76.4%	24,213,674	76.0%
TEACHER'S	Belize City	102,532	0.4%	117,591	0.4%
MESOPOTAMIA	Belize City	487,304	1.8%	528,664	1.7%
WESLEY	Belize City	132,297	0.5%	167,649	0.5%
ST JOHN'S	Belize City	1,414,240	5.1%	1,698,923	5.3%
ENDEVOUR	Stan Creek	146,510	0.5%	196,080	0.6%
	TOTAL:	27,520,221	100.0%	31,858,033	100.0%

Source: Credit Union League and Registrar of Cooperatives and Credit Unions.

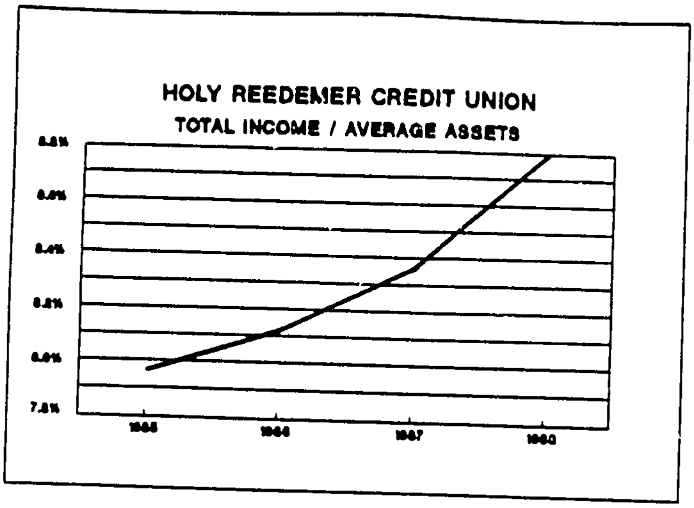

SAMPLE 16 BELIZE CREDIT UNIONS
DISTRIBUTION BY ASSET SIZE-$31,858,000
100%
80%
60%
40%
20%
0.0
TOTAL ASSETS
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16
CREDIT UNIONS

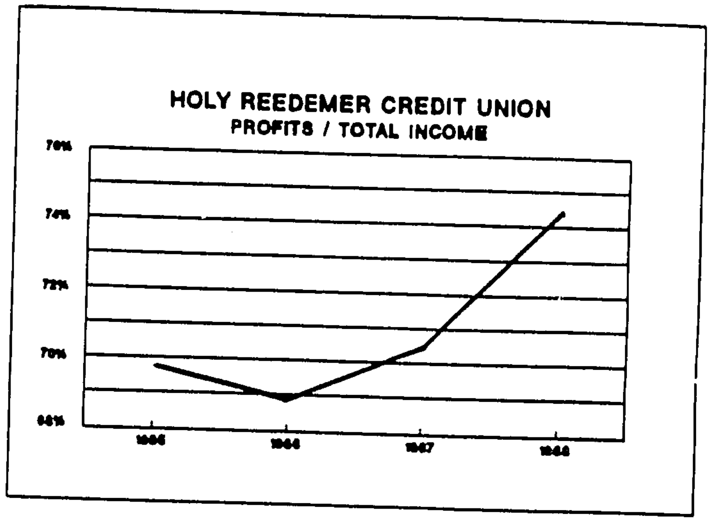
institutions control Bz$ 27.5 million in their loan portfolios, and Bz$31.9 million in total assets. This data does, however, highlight an extreme distributional imbalance in the credit union sector, in which one institutions possesses 76 percent of the total assets.

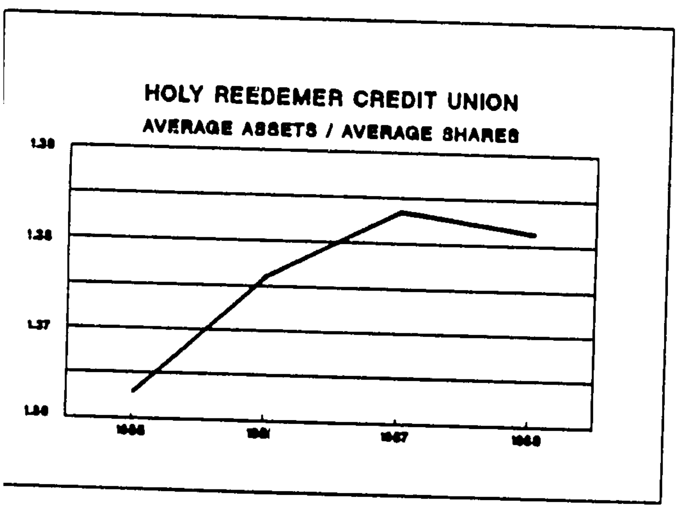
In order to gain a better understanding of the ability of the credit unions to provide effective financial intermediation in Belize, it is useful to review the performance of the Holy Redeemer Credit Union. Exhibits III-14, 16, 17 present the financial situation of this institution, and indicate that Holy Redeemer is performing reasonably well, particularly in view of the fact that it has a large number of members and lacks a computerized system of control. Specifically, its loan portfolio has grown by 47.9 percent over the past four years, financed by 20,000 members' shares, and its return on equity has grown consistently over the period, ranging from 7.5 percent in FY83/84 to 9.0 percent in FY87/88. While the Holy Redeemer charges an interest rate of 12 percent, its effective interest income has fluctuated between 8 and 9 percent. This suggests that loan delinquency may be somewhat of a problem. This situation may improve somewhat, however, once a computer supplied by the Canadians becomes operational. Computerization may help it further reduce operating costs, which have been fluctuating between 2 and 2.5 percent of assets over the past four years.

Importantly for Belize, the relatively strong performance of the Holy Redeemer suggests a significant potential for growth of credit unions, particularly in those sections of the country where the low population density makes the establishment of full branch banking unworkable.

The credit union sector does, however, have some significant deficiencies. The Registrar of Cooperatives and Credit Unions, which is in charge of supervising these various institutions, possesses a highly inadequate administrative capability. The credit unions themselves have few of the modern, computerized means to properly control their operations, not to mention the fact that they lack the basic business expertise to serve as effective financial intermediaries. These institutions have generally been ignored by donor agencies because of the mistaken belief that they fund primarily consumer credit. They actually provide financial services to all sectors of the economy, and it is this diversification which has helped them survive despite poor financial administration.


HOLY REEDEMER CREDIT UNION
TOTAL INCOME / AVERAGE ASSETS


HOLY REEDEMER CREDIT UNION
PROFITS / TOTAL INCOME


HOLY REEDEMER CREDIT UNION
AVERAGE ASSETS / AVERAGE SHARES

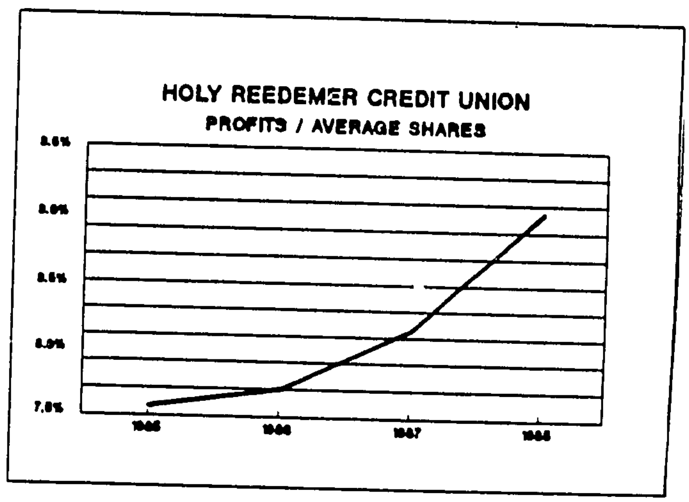
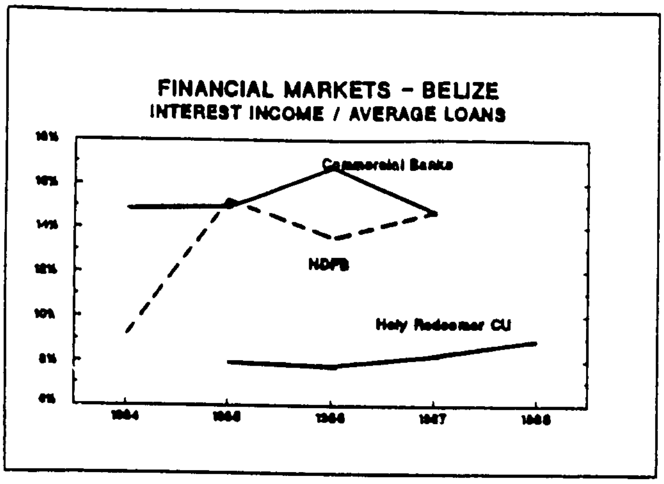
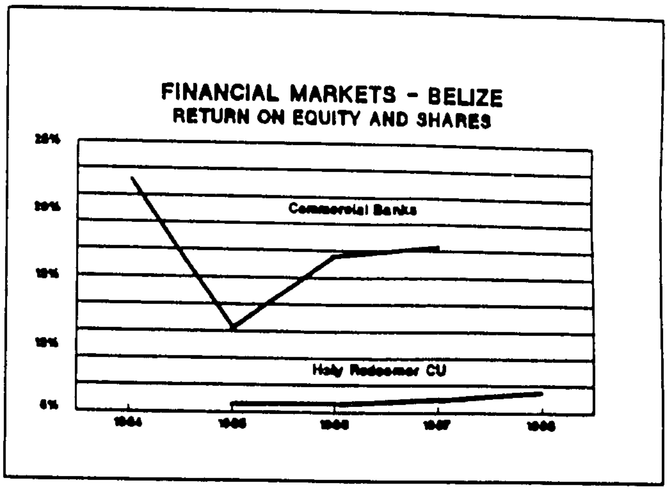
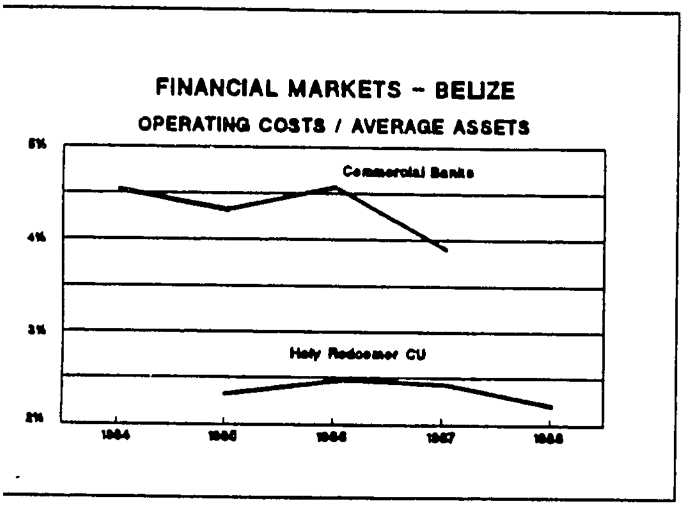
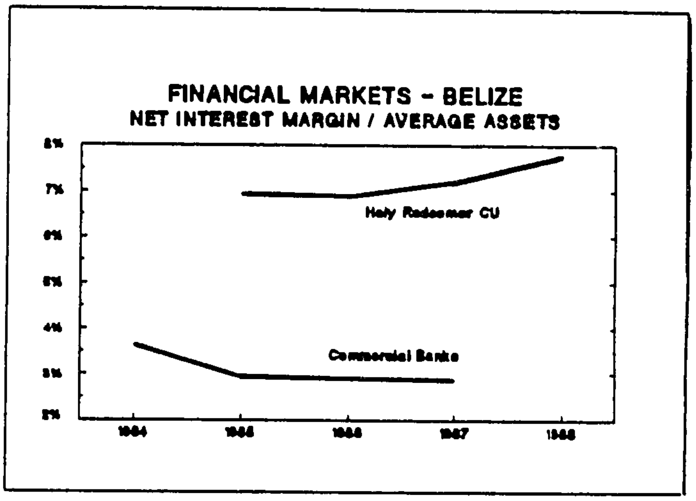

HOLY REEDEMER CREDIT UNION
PROFITS / AVERAGE SHARES

EXHIBIT III-15









HOLY REDEEMER CREDIT UNION LIMITED - COMPARATIVE BALANCE SHEETS

SSETS:	MAR 1984	MAR 1985	MAR 1986	MAR 1987	MAR 1988
ASH ON HAND	2693	2693	2693	2693	2693
ASH IN BANKS	413814	94209	247509	298788	255053
NVESTMENTS:	1653500	1653500	1796500	2205000	2651500
DANS TO MEMBERS	14291759	16173717	17320402	18810101	21030043
DANS TO COOPs:	12187	12187	12187	12187	0
EPAID EXPENSES	5976	22600	18000	14400	13827
ILDINGS (NET)	25541	6116	18103	47928	232534
RNITURE (NET)	14165	13414	13484	11358	8599
ND		19425	19425	19425	19425
TAL ASSETS	16419637	17997864	19448305	21421881	24213674
ABILITIES	MAR 1984	MAR 1985	MAR 1986	MAR 1987	MAR 1988
TIEVILLE	96	96	96	96	0
BERS DEPOSITS	11265	7596	7693	6624	6960
ER RECEIPTS	18601	17858	22968	15760	13735
IDENDS PAYABLE	1351321	1514902	1651982	1810603	2507078
URANCE FUND	3503	4198	4893	5588	6284
		175000	175000	175000	175000
P ADVANCE		37000	89200	114200	
EREST PAYABLE		4812			
AL LIAB	1384787	1724464	1899634	2102873	2823257
ARES	12131628	13124821	14087357	15455762	17581851
UC FUND	117187	125661	151245	187119	231820
ARANTY FUND	7128	7396	7637	7921	8265
NTING. RESERVE	62285	69107	77408	85506	95955
ATUTORY RESERVE	1426097	1617234	1826787	2067324	2353694
IVIDED EARNINGS	1290522	1329176	1398234	1515173	1118832
WORTH	15034849	16273398	17548670	19319007	21390417
B AND NET WORTH	16419636	17997863	19448305	21421881	24213674

rce: Holy Redeemer Credit Union.

HOLY REDEEMER CREDIT UNION COMPARATIVE INCOME STATEMENTS

	MAR 1984	MAR 1985	MAR 1986	MAR 1987	MAR 1988
INTEREST ON LOANS	1050709	1210633	1305459	1483950	1782423
INTEREST INVESTMENTS	174650	153945	207855	217203	210181
OTHER INCOME	4610	5970	7503	7305	13193
TOTAL INCOME	1229970	1370550	1520818	1708459	2005797
EXPENSES					
OPERATING EXPENSES	324268	398415	461543	496638	501596
FINANCIAL EXPENSES	1551	16446	11509	8137	12425
TOTAL EXPENSES	325820	414861	473052	504775	514021
PROFITS	904149	955688	1047765	1203683	1491775
DISTRIBUTION:					
20% STATUTORY RESERVE	180829	191137	209553	240736	298355
5% EDUCATION FUND	45207	47784	52388	60184	74588
DIVIDENDS AND REBATES	678112	716766	785824	902762	1118831

Source: Holy Redeemer Credit Union.

FINANCIAL ANALYSIS OF HOLY REDEEMER CREDIT UNION

	MAR 1985	MAR 1986	MAR 1987	MAR 1988
AVERAGE LOANS	15244925	16759246	18077438	19926165
AVERAGE SHARES	12628225	13606089	14771559	16518806
AVERAGE ASSETS	17208750	18723084	20435093	22817777
ASSET UTILIZATION:	7.96%	8.12%	8.36%	8.79%
PROFIT MARGIN:	69.73%	68.89%	70.45%	74.37%
EQUITY MULTIPLIER:	1.36	1.38	1.38	1.38
RETURN ON SHARES:	7.57%	7.70%	8.15%	9.03%
RETURN ON ASSETS:	5.55%	5.60%	5.89%	6.54%
NET INTEREST MARGIN:	$1,194,186	$1,293,950	$1,475,913	$1,769,998
(NIM)/ASSETS:	6.94%	6.91%	7.22%	7.76%
INTEREST ON LOANS:	7.94%	7.79%	8.21%	8.95%
OP. COSTS/ASSETS:	2.32%	2.47%	2.43%	2.20%

Source: Calculations by author.

Because credit unions have the capacity to mobilize deposits and shares, they have the potential of becoming highly effective financial intermediaries. As with the case of the NDFB, USAID's strategic approach in this segment of the financial sector should be to promote domestic deposit mobilization, financial viability and greater integration into the financial sector. In general terms, USAID's strategy should aim to help organize the credit unions' activities so that they are able to exert an influence commensurate with the resources they control.

From the point of view of policy dialogue, USAID could contribute by communicating the importance to both Government and credit union officials of charging interest rates which more accurately reflect the higher costs and risks of servicing credit union members. The present lending rate structure is established in the Credit Union Society Ordinance (Chapter 247, 1980). The Government, however, has the authority to modify this maximum rate. It is important that the interest rate charged be flexibly determined, not only to allow these institutions to service projects and clientele with higher risk, but to help them better compete for deposits in the financial markets. This would help to promote greater competition in the financial markets.

It is important for USAID to note that credit would not appear to be the most important component of any assistance to the credit unions, as these institutions have the capacity to mobilize their own resources, particularly if interest rates levels are adjusted. Relatively modest levels of technical assistance in building the institutional capacity of the credit unions could significantly improve the viability of these institutions, thereby improving the access of the rural and urban population to financial intermediation. Once these institutions become stronger, they could serve as a "retail" link for the commercial banks and the DFC to reach the middle- and lower-income population. USAID could review similar projects in Guatemala, Honduras, Dominican Republic in order to design technical assistance projects.

F. Prospects for Developing an Organized Securities Exchange in Belize

There is little prospect for developing a viable, stand-alone securities exchange, and hence any significant venture capital activity, in Belize at this time. The conditions are not currently present that would allow Belize to develop either an internal stock market or one tied to world capital markets. This is because there would not be enough domestic investors to maintain an independent, liquid market. And in order to act as feeder into world capital markets, a Belizian securities exchange would have to generate a sufficient volume of securities to merit the attention of international investment managers.

The lack of an organized securities exchange is not necessarily a disadvantage. Most places in the world do not have a local securities exchange of any importance. Rather, the norm is to rely upon the financial services of a few centers such as New York, London or Hong Kong. Belize already does this--the capital of the foreign commercial banks is traded on the London and Toronto exchanges. In practical terms, the question is not to create an internal securities market, but how to use world markets more effectively.

The recent sale of shares of Belize Telecommunications, Ltd. serves as an example of the difficulties involved in generating sufficient liquidity to support an internal securities market in Belize. In this sale, the GOB sold off 45 percent of the shares of this state-owned firm. Only 20 percent of the shares was sold to the "public," while the remaining 25 percent was sold to the British telecommunications firm. The interesting aspect of sale is that the shares guaranteed a 15 percent (tax-free) rate of return for two years. In addition to the general public, the private banking system invested in these shares at the behest of the Government, obtaining a guaranteed rate of return for two years as well as a guaranteed re-purchase agreement at the original price.

This transaction does not appear to contain the elements of a true equity participation scheme as Belize Telecommunication Ltd. absorbs all the downside risk, while the buyers participate in the upside gains. Furthermore, while the GOB received the capital from the sale of the shares, it is Belize Telecommunications which must re-purchase the shares at face value and guarantee the rate of return. Apparently, the shares of this firm did not move despite the fact that the guaranteed rate of return is almost double what a time deposit is paying in the commercial banking system, and the Government had to "jawbone" some institutions into buying shares.

The potential illiquidity of this type of investment in such a thin market severely limits the demand. In addition, the closed nature of the firms in low-income countries makes them unwilling to sell off their control in the firm. The problems which face minority shareholders are considerable in these economies. Although there may be a few firms that could sell shares in the market, it certainly is not a solution to the problem of access to long-term venture capital.

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IV. CONCLUSIONS

A number of key conclusions resulting from the overall financial sector survey are summarized below.

- The Belizian financial sector is dominated by the commercial banks, rendering the financial sector relatively uncompetitive

The financial sector in Belize suffers from the same difficulties as those of any low-income country which, in the case of Belize, are augmented by the small size of the economy. The financial sector is dominated by the commercial banks, and the public development institution is sorely inefficient. The distribution of banking offices are highly concentrated in the major cities, and the access to the formal financial institutions by the medium and low-income population (rural or urban) is limited. For the most part, the commercial banks behave in an oligopolistic manner, resulting in conservative lending policies which have inhibited economic growth in Belize.

- The banking sector, hard-hit by economic recession rooted in the fall of the price of sugar, is in the process of recovering.

The financial markets in Belize, and more specifically the commercial banking sector, have been in disequilibrium for the past seven years, reflecting the major structural transformation taking place in the economy as a whole. After the fall in the prices of sugar, the financial sector, which had traditionally provided the greatest demand for credit, weakened. Following this, the Government of Belize entered into a stand-by agreement with the International Monetary Fund which placed a number of restrictions on the commercial banks, which severely altered their balance sheets. The use of excess investments in treasury bills was not the preferred strategy on the part of the commercial banking system, as the decline in profitability clearly demonstrates. This disequilibrium situation was beginning to reverse itself in late 1988, as can be noted in the commercial banks' increasing returns on equity.

- <u>The stabilization program implemented by the GOB appears to have been effective</u>.

The results of the stabilization program have been successful, and the economy appears to be growing again. The Central Bank's attention can now be turned to loosening some of the liquidity restrictions placed on the commercial banks, as well as creating the conditions within which market forces can more fully determine domestic interest rates in Belize.

- <u>Thin financial markets in Belize have led to stringent collateral requirements on the part of the commercial banks, which the Commercial Bank Rediscount Fund was not able to address</u>.

The financial markets in Belize are extremely thin and, as a result, so are the secondary markets for collateral. Because of this, the commercial banks tend to require greater coverage than in low-income countries where disposing of an asset may not be as difficult. Although loan guarantees appear to be a relatively simple solution, the case of the Commercial Bank Rediscount Fund demonstrates the limits of this type of effort. The decline in the profitability of the commercial banks over the past four years, combined with the perception that at least one bank is pursuing an aggressive strategy, would seem to suggest that these institutions will be willing to more closely explore the new growth sectors of the economy.

- <u>There is a need to enhance the project analysis capability of the commercial banks considering that future project growth will be in relatively new areas (e.g., non-traditional agricultural exports)</u>.

While the commercial banks in Belize may possess the technical capacity to carry out formal analyses of projects, there may be a need for technical assistance to enhance the risk evaluation capabilities of commercial banks, as this is not the traditional role of commercial banks, particularly in view of the fact that much of the future growth in the Belizian economy depends on the re-orientation of its agricultural sector into new areas.

It may therefore be useful to further develop the project analysis capacity of the commercial banks, focusing efforts on those banks that are willing to take on credit risks which the other banks are not willing to take. Assisting banks that choose to pursue aggressive lending strategies into new areas, in this manner will inject much-needed competitive pressures into a banking system which is essentially oligopolistic in nature.

- The creation of a new institution, whether public or private, with a mandate to mobilize resources for, and channel them to, the productive sectors is not warranted at this time. It would be more appropriate to make better use of already-established institutions in Belize.

Rather than create new financial institutions in an effort to increase the levels of term financing to the productive sectors, a more appropriate course of action would involve further enhancing the ability of selected Belizian financial sector institutions to channel long-term funds to the productive sectors (e.g, DFC, NDFB, credit unions).

- The DFC needs to reorient its philosophy and operations so that it is more sensitive to market-based criteria.

Many of the inefficiencies which plague the DFC derive from the fact that its strategic and operational objectives are shaped by political rather than market-based criteria. It is important that efforts be aimed at helping the DFC to establish clear objectives and measurable operational guidelines which serve to guide and evaluate the performance of the institution, and to obtain from the GOB stricter regulations that protect the DFC from political intrusion. Helping the DFC reorient its activities in this manner is important since, in view of the structural changes taking place in the economy of Belize, as well as the potential lack of long-term funds being channeled to the productive sectors to support future growth, there is a need for a financial intermediary which will endeavor to finance start-up projects whose potential for success is reasonable, but which lack the necessary collateral as required by the commercial banks. USAID's should focus on making the DFC more sensitive to market priorities. The profits gained from successful investments are needed to support any kind of a vigorous competitive investment program.

- <u>While relatively successful to date, the NDFB needs to clarify the relative emphasis it should be placing on providing financing versus technical assistance services, and it should endeavor to organize its efforts so as to "graduate" itself, and not its clients per se, into the formal financial sector</u>.

Many of the micro and small business credit programs stress the concept of "graduating" the clients of the program into the formal financial sector. However, it is important to note that the primary reason why the commercial banks, i.e., the "formal" financial sector, do not service the micro and small enterprise market is due to cost factors, and not necessarily the risk of default. "Graduating" their least costly and risky clients to the commercial banks would place the NDFB itself at risk. The NDFB should instead endeavor to maintain, if not expand, its client base, and strive to become self-sufficient. This will require that the NDFB begin to cover a greater amount of its higher transactions costs by raising the interest rates charged to its borrowers, or by charging special fees. Sustaining its training operation may, in turn, require assistance from USAID for the foreseeable future while the institution becomes self-sufficient on the financing side. For example, USAID may wish to review the FUNADEH model in Honduras, whereby the services of the IESC are provided to groups of borrowers in the same or related fields, thus generating some economies of scale.

- <u>The credit union sector represents a positive force that can enhance the competitiveness and resiliency of the financial sector, as well as provide access to financial intermediation by an important segment of the population, provided that its efforts are organized so that it can exert an influence commensurate with the level of resources it controls</u>.

Because of the low population density in Belize, it is difficult to provide the rural sector with the benefits of financial intermediation. Credit unions could play an effective role in this regard, since neither the commercial banks or the DFC are in a position to effectively service this segment of the population. In order to play a more effective role as financial intermediaries, however, the credit unions must overcome a number of difficulties, ranging from a high degree of administrative inefficiency to a lack of strategic direction regarding how to take full advantage of the resources which they control.

- <u>The creation of an internal, stand-alone securities exchange in Belize is not feasible at this time, indicating that efforts in this area, if any, be concentrated on gaining access to already-existing exchanges</u>.

The conditions do not currently exist that would allow Belize to develop either an internal capital market or one tied to world capital markets. The Belizian economy is too small to support an independent, internal market that would have a significant impact on economic development since there would not be enough investors internally to sustain an independent, liquid market. And in order to act as a feeder into world capital markets, a Belizian exchange would have to generate a sufficient volume of securities to merit the attention of international investment and portfolio managers. The small size of its economy again limits Belize's ability to participate in world capital markets in such a manner. Additionally, successful participation in world capital markets requires freedom from exchange controls, lack of barriers to transfer of ownership, and fair, non-discriminatory treatment of foreign investors. Despite the many obstacles, there may nevertheless be merit to the idea of determining whether Belize could participate in any organized exchanges in the region as part of an effort to use world markets more effectively.

- <u>USAID is in a position to play an active role in both promoting policy dialogue and in providing targeted technical assistance to further develop the institutional capacity of selected financial sector institutions</u>.

USAID should endeavor to complement, on a policy dialogue basis, the World Bank's current efforts with respect to the Development Finance Corporation. USAID could also enter into a policy dialogue with appropriate GOB and credit union officials regarding the level of interest rates charged by the credit unions and, more generally, how the credit unions may better organize their efforts to play a more active role in financial intermediation. This may require that the Central Bank extend its bank supervision responsibilities to include the activities of the credit unions, an effort which USAID could readily support by providing technical assistance aimed at assisting the Central Bank to establish an appropriate supervisory system. More broadly, it may be useful to review the nature of the Central Bank's supervisory machinery to see if there are any efficiencies to be gained. Also in support of its policy dialogue efforts, USAID may wish to investigate the feasibility and extent to which Belizian companies and investors can gain access to, or become active participants in, regional securities exchanges.

Generally, in terms of its technical assistance efforts, USAID should concentrate on improving the efficiency of those existing financial intermediaries that have the capacity to provide greater geographical and social coverage, and that have a particular comparative advantage in servicing particular segments of the population. Specifically, USAID may wish to consider assisting the commercial banks willing to pursue lending in the new areas in upgrading their project analysis capabilities. USAID may also consider assisting the DFC, NDFB, and credit unions to enhance the operational skills of their personnel, as well as to develop computerized systems of control so that they can better manage their operations.

It would also be useful for USAID to assist the NDFB to identify and implement alternative strategies for becoming a self-sufficient institution, including how to properly differentiate and organize its financing and technical assistance components. Basically, the NDFB needs to manage its growth in the area of technical assistance, so as to increase the likelihood that its financial services component might become profitable on a stand-alone basis.

Note that USAID's assistance in the area of financial sector development does not necessarily require providing new or additional credit facilities. The liquidity situation in Belize appears to be sufficient to meet the financing needs of the productive sectors in the period ahead, particularly in view of the funds forthcoming from the World Bank. The issue which USAID is best equipped to address, particularly in view of the limited resources it has at its disposal for use in Belize, is how to better organize the efforts of selected financial sector institutions to channel the needed resources to the productive sectors, particularly the small- and medium-sized companies.

Finally, in view of the strong relationship between the availability of a properly-developed financial sector and private sector-led growth, we believe that USAID will get a good return on investment in terms of development impact from the resources it applies, whether in policy dialogue or institutional development, to improving the ability of the financial sector to service the needs of the productive sectors. USAID may therefore wish to consider placing the responsibility for overseeing all efforts associated with financial sector improvement with one individual within the Mission so as to properly focus and manage its efforts in this area.

The next Chapter outlines more specifically what USAID's role might be in assisting in the development the Belizian financial sector within the context of its country strategy.

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V. RECOMMENDATIONS REGARDING USAID'S COUNTRY DEVELOPMENT STRATEGY

A. Current USAID Interventions

USAID currently has a number of interventions that impact on the financial sector development in Belize. As contained in the Mission's Action Plan (FY 1989-90), these include:

- National Development Foundation of Belize: The National Development Foundation of Belize, supported by a grant from USAID for institutional development, is providing the major source of credit and technical assistance to local micro and small enterprises. The NDFB provided credit and technical assistance to 432 micro and small enterprises in 1987; it has already provided 550 loans with a total loan portfolio of $900,000 at a very low default rate of 6%, creating or protecting over 925 jobs. USAID has obtained the support of the Government of Belize (GOB) for this project. The GOB has made $150,000 available to the NDFs and promised an additional $50,000. The Mission is currently planning to promote the expansion of the amount of credit available to the NDFB and to analyze the possibility of making this institution self-sufficient.

- USAID's Commercial Bank Discount Fund: USAID's Commercial Bank Discount Fund (CBDF) Project disbursed $1.7 million in 1987 to support six foreign exchange saving or earning projects. USAID is working with the Ministry of Finance and the Central Bank on a plan for the use of the CBDF reflows and the establishment of a Permanent Discount Fund.

- Export Investment Credit Project: This project scheduled for FY 1990, will address constraints in the financial sector to the provision of medium and long-term credit to the tourism and light industry export activities in order to channel a larger flow of resources to these productive sectors. As part of this project, AID will finance technical assistance to the Ministry of Economic Development, the Central Bank, the Ministry of Finance and/or the commercial banks to facilitate use of medium and long-term credit funds for agriculture and tourism. AID will also finance

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technical assistance for loan proposal preparation to the private sector.

- Agricultural Diversification Credit: Small farmers in Orange Walk and Corozal districts will have access to section 416 local currencies programmed for agricultural diversification credit.

B. Premises and Objectives of USAID's Financial Sector Strategy

In developing its Country Development Strategy Statement (CDSS) and, within this broader strategy statement, a strategy focusing on financial sector development, USAID should take into consideration AID's general policy and objectives in the area of financial market development. Specifically, as stated in the Policy Paper, AID supports developing countries' efforts to:

- Design, adopt and implement policies conducive to the development of efficient, deep, and integrated financial markets, relying primarily on market rates of interest and other terms for the efficient mobilization of private savings and the allocation of credit
- Build and promote competition between viable private, profit-making financial institutions.

The Policy Paper indicates that AID should endeavor to promote these processes through both policy dialogue and project assistance.

As such, in line with both the Policy Paper and the findings and conclusions developed as a result of this financial sector survey, some of the basic objectives and underlying premises of USAID's future financial sector-related strategy might include:

- Expanding the degree of competition in the financial sector
- Integrating the different financial institutions more fully into the overall financial sector
- Expanding the geographic distribution of financial services

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- o Expanding the access to credit on the part of middle- and low-income borrowers through effective linkages between the commercial banks and credit unions or the NDFB

- o Promoting the self-sufficiency and efficiency of the different financial intermediaries

- o Supporting the Central Bank in its efforts to more effectively supervise and regulate the financial sector and incorporate into the system those institutions which it does not now supervise.

C. Possible New or Supplementing Interventions

Based on these objectives and premises, and building on the conclusions presented in the previous Chapter regarding the areas in which USAID is in a position to play an active role in both promoting policy dialogue and in providing targeted technical assistance to further develop institutional capacity of selected financial sector institutions, USAID may wish to consider a number of additional interventions, including some which build on interventions already contained in its Action Plan:

- o Sponsor a technical assistance/training (TAT) program with the objective of providing training in the techniques of structuring, securing and analyzing different types of credit requirements and instruments. Such instruction could include such things as financial statement analysis, cash flow analysis, techniques of securing extensions of credit, project analysis, agricultural industry analysis. Participants could include top- and mid-level staff from the DFC, the credit unions and the commercial banks.

- o Review the supervisory/regulatory capacity of the Central Bank and the need for, and modus operandi of, extending its supervisory obligations to the credit union sector.

- o Conduct strategic reviews of the NDFB, the DFC, and the credit unions to determine how to better organize their activities in order to make them a more effective players in the Belizian financial sector, thereby making the sector more competitive. A strategic review includes a assessing and redefining, as appropriate, an

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institution's mission, objectives, business units, organizational structure, etc. In this way, these institutions become more competitive within their respective segments of the market and, in the process, bring to bear more effective financial intermediation to the productive sectors.

- Review the interest rate-setting policies of the credit unions in an effort to help them determine the proper rates to charge on relatively risky endeavors, as well as to better compete for deposits.

- Determine the computerization requirements of the credit unions and help design and implement the most appropriate micro computer-based systems.

- Determine the feasibility of Belizian participation in regional securities markets with a view to gaining greater access to world capital markets.

STATEMENT OF WORK

INTRODUCTION

In support of the drafting of the CDSS, USAID Belize plans to conduct surveys of Belizean relationships to the supply, demand, and administration of credit. ("Credit" is broadly defined to include such meanings as working capital, investment capital, risk or venture capital; the term is broadly extended to include technical assistance and training directly and materially related to the provision of "credit").

FOCUS AND OUTPUT

The output of this statement of work will be a credit needs survey.

The survey will be a primary source document that USAID Belize can draw upon to develop its strategy that the USAID can carry out in support of its Country Development Strategy Statement for 1990 and beyond.

The strategy that will evolve from this survey is briefly proposed here in order to put into context the relevance of the surveys and the importance of the data, discussion and documentation that will be developed through the survey.

-The strategy will define a clear set of priorities, goals and objectives for the USAID to achieve long term economic growth and stability, spread the benefits of growth, promote the successful growth of the private sector and strengthen its institutional framework.

-The strategy will identify constraints and opportunities to mobilize credit in the sectors; define an A.I.D. role in credit management in Belize, including dollar projections when possible; identify potential for expansion and growth and recommend actions to strengthen and expand access to productive credit in the formal and informal sectors; identify actions to increase incomes and employment through credit mobilization; identify areas for policy dialogue; recommend changes in laws, policies, and regulations affecting savings and credit; identify policies or mechanisms used in MSE, SSE and SF activities in other countries which could be used or adapted in Belize to expand credit allocations; identify benefits and beneficiaries of productive credit in quantitative and qualitative terms and describe how successful credit to the targeted sectors will promote increases in employment and incomes; recommend specific plans or activities that will involve women more fully in credit management.

METHODOLOGY

The survey will develop sector profiles through a combination of interviews, sampling, and review of literature, documents and data.

The survey will be carried out primarily in Belize but will also use available sources and resources in Washington, such as those available in A.I.D./Washington and other federal agencies, the World Bank, the IMF, Embassy of Belize, etc. In Belize, principal sources of information include the USAID and Embassy staff, officers of the GOB, local commercial banks, the Central Bank of Belize, local credit unions, the Belize Investment Group, the National Development Foundation of Belize, and the Development Finance Corporation, etc. Consideration should be given to previously developed information including A Survey of Micro Enterprises and Small Scale Business in Belize, prepared by S. Mintz in November and December 1983; A Proposed Lending strategy for USAID/Belize, Development Alternatives, Inc. October 1987; and an assessment of the NDF in Belize as part of A.I.D/W's 1988 microeconomic stocking.

The survey will define relevant terms such as small scale, micro scale, small farmer, training (technical, product line; management of credit), nontraditional agriculture, financial markets, etc., keeping as close as possible to generally accepted A.I.D. terminology and use.

AREAS FOR EXPLORATION

(Subject to further refinement after initial visit and discussions with AID/W).

Actual work shall explore the following areas:

- The actual demand for credit vs. the perceived demand for risk capital;

- The sustainability of proposed/discussed lending projects after the AID period;

- Plan for transition of sub-borrowers' projects to become bankable by market sources (commercial banks);

- Impact of government policy and laws as barriers to rational allocation of credit and capital;

- Assessment of the need for expanded access to technical assistance for sub-borrowers before they will be able to develop viable project plans and qualify for financing.

- Update of all key elements; economics, market, financial systems, World Bank projects etc.;

- Provide a brief, historical sketch of tho emergence of capital markets in Belize and the allocation and management of credit for the selected and defined sectors of the study;

- Describe in brief, summary form how credit, technical assistance and training needs are being met including review of impact failure of Caribe Farms project;

- Describe available delivery mechanisms. This includes a review of BBCI's current interest in equity participations and new higher loan size minimums;

- Describe the role of government policy/legal reform in capital markets formation;

- Describe banking and financing experience of target groups, including terms and source of loans, use and availability of collateral.

- Describe other important aspects of target groups, such as: quality of management, technical knowledge, support from cooperatives, and government.

- Describe perceived needs of target groups, other than credit: technical assistance, marketing, business quidence/management, etc.

- Describe lending criteria, loan ceilings, minimum loans, finance charges, technical assistance, and staffing and loan administration.

REPORTS

Description:

The Credit Survey report shall contain:

-An executive summary covering findings, conclusions, recommendations, and lessons learned from past or ongoing A.I.D. credit activities;

-A body of text in which report discusses and defends the points, data, tables, documentation, methodology, opinions, recommendations, etc, made in response to the Scope of Work.

-A copy of this Scope of Work and any deviations from the scope (such as those required by local security or travel restrictions, illness, unplanned absences of interviewees, lack of cooperations, etc);

-A list of the principal persons interviewed (name, job title, date/place) and documents reviewed;

-A separate, detailed listing of recommendations for A.I.D. or USAID consideration;

Deliverables:

-The contractor will spend approximately two weeks in Belize on data gathering, interviews, and analysis.

-The contractor will provide oral reports to the USAID Program and Project Development Office once a week after arrival in Belize, the first no later than December 14th, 1988.

-The contractor will brief USAID Belize on its preliminary findings, conclusions, and recommendations before departing Belize and submit a written draft outline of the preliminary draft report by Dec 23 to AID/W in preparation of a one day meeting in AID/W to discuss finding before December 23. The contractor will complete a written draft, final report by January 15, 1989. USAID will respond to the draft final within two weeks after receipt.

-The final report will be due by February 15, 1989.

APPENDIX B

PEOPLED INTERVIEWED

1. Bachofer, Jack M., Agricultural Economist, Chemonics
2. Bisek, Paul A., USAID
3. Briggs, John, Advisor, Ministry of Economic Development
4. Burgos, Chamber of Commerce
5. Carr, Winston, Corporate Secretary, Development Finance Corporation
6. Cuellar Montalvo, Manuel, Managing Director, National Development Foundation of Belize Ltd.
7. Graham, Gilroy, Agricultural Promotion Officer - BEIPU
8. Guerrero, Reynaldo D., Manager Domestic Services - BTL
9. Jones, Elton, Owner, Sportex (Textiles)
10. Jones, Nick, Executive Director, Belize Credit Union League
11. Jordan, Mosina, Representative, USAID
12. Lagos, Ms., Assistant Manager, Atlantic Bank
13. Marshall, Tony, Manager - Barclays Bank PLC
14. Miller, John, Managing Director - Belize Bank
15. Novelo, Jose E., Administrator, BABCO
16. Pitts, Ned E.A., Director, Belize Credit Union League
17. Rao, Jaishil, Advisor/Director of Research, Central Bank of Belize
18. Rosado, Jose, Manager, Scotia Bank
19. Searle, John M., Managing Director, Belize Global Travel Service
20. Slusher, Alan, Governor - Central Bank
21. Spika Susan, AID/LAC
22. Usher, Jane, Manager, Holy Redeemer Credit Union
23. Villanueva, Arturo, USAID
24. Walker, Jim, USAID
25. Wright, Keith K., Registrar, Registrar Co-operatives and Credit Uni

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