

UNCLASSIFIED

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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

BELIZE

PROJECT PAPER

HOME IMPROVEMENT PROJECT
(Amendment #1)

AID/LAC/P-109/1

Project Number: 505-HG-001

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AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input type="checkbox"/> A = Add <input checked="" type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number 1	DOCUMENT CODE 3
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2. COUNTRY/ENTITY BELIZE	3. PROJECT NUMBER 505-HG-001
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4. BUREAU/OFFICE LAC 05	5. PROJECT TITLE (maximum 40 characters) ROME IMPROVEMENT PROJECT
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6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 09 30 98	7. ESTIMATED DATE OF OBLIGATION <i>(Under "B" below, enter 1, 2, 3 or 4)</i> A. Initial FY <u>82</u> B. Quarter <input checked="" type="checkbox"/> C. Final FY <u>88</u>
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8. COSTS (>\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(400)	()	(400)	(400)	()	(400)
(Loan)	()	()	()	()	()	()
Other U.S.						
1. HG	2,000		2,000	2,000		2,000
2.						
Host Country						
Other Donor(s)						
TOTALS	2,400		2,400	2,400		2,400

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPRO- PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1)	HG	729	866				2,000		2,000
(2)	ESF	729	866			400		400	
(3)									
(4)									
TOTALS						400	2,000	400	2,000

10. SECONDARY TECHNICAL CODES (maximum 5 codes of 3 positions each)	11. SECONDARY PURPOSE CODE
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12. SPECIAL CONCERN CODES (maximum 7 codes of 4 positions each) A. Code B. Amount	
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13. PROJECT PURPOSE (maximum 480 characters) <div style="border: 1px solid black; padding: 10px; min-height: 80px;"> Preserve, upgrade and expand the nation's housing stock. </div>
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14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY 08 83 11 84	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input type="checkbox"/> 000 <input type="checkbox"/> 941 <input type="checkbox"/> Local <input type="checkbox"/> Other (Specify)
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 6 page PP Amendment.) Modification of project purpose to that presented above and as explained in PP supplement attached.

17. APPROVED BY	Signature: Peter Kimm <i>[Signature]</i> Title: DAA/PRE <i>[Signature]</i>	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION Date Signed: MM DD YY 06 13 26
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INSTRUCTIONS

The approved Project Data Sheet summarizes basic data on the project and must provide reliable data for entry into the Country Program Data Bank (CPDB). As a general rule blocks 1 thru 16 are to be completed by the originating office or bureau. It is the responsibility of the reviewing bureau to assume that whenever the original Project Data Sheet is revised, the Project Data Sheet conforms to the revision.

Block 1 - Enter the appropriate letter code in the box, if a change, indicate the Amendment Number.

Block 2 - Enter the name of the Country, Regional or other Entity.

Block 3 - Enter the Project Number assigned by the field mission or an AID/W bureau.

Block 4 - Enter the sponsoring Bureau/Office Symbol and Code. (See Handbook 3, Appendix 5A, Table 1, Page 1 for guidance.)

Block 5 - Enter the Project Title (stay within brackets; limit to 40 characters).

Block 6 - Enter the Estimated Project Assistance Completion Date. (See AIDTO Circular A-24 dated 1/26/78, paragraph C, Page 2.)

Block 7A. - Enter the FY for the first obligation of AID funds for the project.

Block 7B. - Enter the quarter of FY for the first AID funds obligation.

Block 7C. - Enter the FY for the last AID funds obligations.

Block 8 - Enter the amounts from the 'Summary Cost Estimates' and 'Financial Table' of the Project Data Sheet.

NOTE: The L/C column must show the estimated U.S. dollars to be used for the financing of local costs by AID on the lines corresponding to AID.

Block 9 - Enter the amounts and details from the Project Data Sheet section reflecting the estimated rate of use of AID funds.

Block 9A. - Use the Alpha Code. (See Handbook 3, Appendix 5A, Table 2, Page 2 for guidance.)

Blocks 9B., C1. & C2. - See Handbook 3, Appendix 5B for guidance. The total of columns 1 and 2 of F must equal the AID appropriated funds total of 8G.

Blocks 10 and 11 - See Handbook 3, Appendix 5B for guidance.

Block 12 - Enter the codes and amounts attributable to each concern for Life of Project. (See Handbook 3, Appendix 5B, Attachment C for coding.)

Block 13 - Enter the Project Purpose as it appears in the approved PID Facesheet, or as modified during the project development and reflected in the Project Data Sheet.

Block 14 - Enter the evaluation(s) scheduled in this section.

Block 15 - Enter the information related to the procurement taken from the appropriate section of the Project Data Sheet.

Block 16 - This block is to be used with requests for the amendment of a project.

Block 17 - This block is to be signed and dated by the Authorizing Official of the originating office. The Project Data Sheet will not be reviewed if this Data Sheet is not signed and dated. Do not initial.

Block 18 - This date is to be provided by the office or bureau responsible for the processing of the document covered by this Data Sheet.

BELIZE HOME IMPROVEMENT LOAN, PROJECT 505-HG-001
PROJECT PAPER SUPPLEMENT

I. Background

In September, 1982, the Latin American Bureau authorized a \$2 million HG loan for Belize. The stated purposes of the project were as follows:

1. to encourage local credit institutions to stimulate shelter credit activities and to strengthen the institutional capacity of the Credit Union System;
2. to support and expand private sector participation in the financing and construction of shelter;
3. to preserve and upgrade the nation's housing stock; and
4. to assist the GOB to rationalize its housing delivery system by focusing on policy, institutions, research and development of examples of housing solutions which are affordable to lower-income households rather than having the government produce heavily subsidized, standard housing.

Three groups were originally participating in this program, the Belize Credit Union League, the Development Finance Corporation, and the Holy Redeemer Credit Union. A total of 1,300 home improvement loans were to be financed, principally in Belize City where the majority of the population resides.

II. Actions to Date

A. Interest Rate Problems

From the very beginning the interest rate that was to be charged to borrowers was a bone of contention between AID and the GOB. AID had originally envisioned an increase in the on-lending interest rates from 12% to 18%. Despite a continuing AID dialogue with the Belizean institutions and the findings of a 1984 project evaluation, the BCUL ultimately has refused to increase interest rates to this level. The Board of the BCUL and AID, however, did finally agree in September, 1985, to increase interest rates to 14%, a rate which would allow the BCUL and the DFC to recover their cost of borrowing the HG loan. However, when they presented this proposal to the individual credit unions, the majority of the credit unions, including the largest credit unions, refused to ratify this action.

B. Drop in Demand

Since the inception of the program, the credit unions have never generated a significant number of home improvement loans. In 1985, disbursements averaged only \$76,714. The Holy Redeemer Credit Union, the largest credit union in the country, after participating marginally in the first few months of the program decided to drop out

of the it altogether. Other credit unions who had provided the bulk of home improvement loans in the past, discovered that due to the reduction in the sugar quota and the subsequent increase in unemployment, that eligible and interested borrowers were hard to find. With their refusal or inability to participate in the program, overall demand has dropped considerably.

One of the principal reasons demand has dropped is because there is currently no institution serving Belize City. The DFC is restricted to lending only in rural areas and the largest urban credit unions are no longer participating in the program. Thus the pool of urban clients originally envisioned as the basis of demand for this project currently cannot participate in AID's Home Improvement Loan Program.

In the absence of any institution serving Belize City, the DFC has been receiving a growing number of requests for home improvement loans.

C. Drain on GOB budget

Because the GOB was not drawing down on its escrow account, payments by the GOB on the variable rate HG loan were greater than the flow of resources to the country. Because of this, in the Spring of 1986, the DFC requested that AID investigate the possibility of prepayment. Based upon further discussions within the GOB on the need for shelter resources in the country, this proposal was dropped, but the desire to accelerate drawdowns to prevent a continued drain on the GOB budget is now a driving force within the GOB.

III. Current Status

Based on these prevailing conditions, and particularly the desire to make better use of the HG loan in order to prevent further drains on the GOB budget, in 1986 the BCUL and the DFC prepared a new Project Delivery Plan

Negotiations were conducted between the BCUL and the DFC to determine how the program disbursements could be accelerated and how demand from urban clients could be met. Both parties agreed that it would be advantageous if the DFC expanded its housing activities into urban areas. On the basis of this agreement, AID/Belize and RHUDO/CA prepared a draft cable and second amendment to the Belize Implementation Agreement to allow DFC to expand its lending into urban areas. Under this plan, all remaining HG funds would be disbursed over the next 13 months.

At issue is whether the Agency wishes to continue to focus on the BCUL, where resource flows are projected to continue to move at a rate of only \$50,000 Bz every six months or to allow the DFC to move into urban areas. Allowing DFC to service urban clients would have the following effects: (a) it would allow this admittedly problematic project to be closed out in a timely manner, (b)

it would dramatically increase the number of beneficiaries served over a short period of time, and (c) it would reduce the risk of continued drains on the GOR budget as a result of the difference in interest rate spreads between the cost of paying on unused escrow funds and the rate that the DFC can earn from on-lending.

In addition, since interest rates on the variable rate HG loan have recently been adjusted downward because of the advantageous market conditions in the U.S., now is an opportune time to move the remaining HG funds in Belize since interest rate spreads for the DFC and the BCUL are currently more attractive.

IV. Proposed Modifications to the Belize Home Improvement Loan Program

The shift in the use of HG funds from the BCUL to the DFC does represent a change in one of the purposes of the program. One of the original purposes of the project was to expand private sector participation in financing and construction of shelter. In the area of shelter construction, the private sector will continue to be supported, whether funds are provided through the DFC or the BCUL. It is principally in the area of financing where a shift in the project purpose will occur. Based on the revised Project Delivery Plan, including previous disbursements, the private sector, consisting of the BCUL and Holy Redeemer Credit Union, would receive a total of 42.2% of the HG funds while the DFC would receive 57.8%.

If we agree to approach the completion of this project, at this point, as a second phase of the HG program in Belize, since technical assistance and training funds have already been exhausted, we propose that the project purpose simply state: "To preserve, upgrade and expand the nation's housing stock."

While AID intends to continue its emphasis on the private sector in Belize, at least in the housing sector there are no other viable private sector finance institutions to whom AID could shift these resources. AID has tried repeatedly to interest commercial banks in the program, but to no avail. In addition, AID had also investigated the possibility of the Belizean Building Society working on this project. That organization is now currently involved in implementing a Venezuelan housing scheme, where unit costs are \$20,000 US. Units have yet to be occupied and debate is ongoing between private housing agencies and the Ministry of Housing whether indeed any units have even been sold. In short, while AID/Belize would prefer to work with private sector institutions to implement this HG loan, other than the BCUL, no other private sector agency has the capacity or the interest to participate. Consequently, AID/Belize, in order to continue to service low income households, believes that in this instance, precedence must be given to serve our client group in a timely manner rather than extend the timeframe for provision of these services solely to continue our focus on the private sector. In light of the unique conditions that prevail in such a small country as Belize, AID/Belize believes that it must rely on the DFC at this time as an institutional player in the housing sector.

Given that greater reliance will be placed on the DFC for program implementation, one issue that was raised by the bureau was the financial stability of the DFC. To determine the current condition of the DFC portfolio, comparison of key financial statistics for 1981 and 1985/86 were made. Data analyzed included arrearage rates on DFC's overall portfolio, housing portfolio, and its assets, reserves, and net income position. The conclusion drawn from all these comparisons is that DFC has substantially improved its overall financial position over the last five years.

A brief summary of the basis for this conclusion follows:

Based on the figures provided in the original Project Paper in December, 1981, arrearages on DFC's total portfolio amounted to 20.3%. By September, 1985, arrearages on DFC's total portfolio increased to 25%. Since September, 1985, however, DFC management has made a concerted effort to decrease their overall delinquency rate. DFC has initiated court suits against some debtors. Court litigation has netted recovery of \$Bz 2 Million during the first three months of 1986. In addition, small farmers who have received agricultural loans have been allowed to reschedule their debts in lieu of calling in the loans. As a result of these actions, arrearages on DFC's overall portfolio have been reduced from 25% in September, 1985, to 8% as of March, 1986.

The performance of DFC in collecting housing loans is better than DFC's overall performance. On DFC's housing portfolio, arrearages averaged 6% in 1985, a considerable reduction from the 19.8% of its housing portfolio in arrears in 1981 when the original PP was written. Arrearages on DFC/AID home improvement loans are even lower, averaging only 2% for 1985. DFC is also initiating legal actions against all home improvement borrowers with arrearages over 3 months. Therefore, in relation to its arrearages, the DFC has instituted effective steps to control this problem.

A comparison of other financial statistics for DFC from 1981 to 1985 reveals the following:

1. Assets have increased from \$14.8 Million (US) in 1981 to \$22.3 Million (US) in 1985.
2. Cash in banks and other deposits have increased from \$517,289 (US) in 1984 to \$1,542,073 in 1985.
3. Reserves to cover loan losses have increased from \$192,899 (US) in 1984 to \$567,899 in 1985.
4. Net income for DFC has increased from \$92,000 (US) in 1981 to \$110,128 in 1985. Their 1985 net income figure represents a considerable recovery from their recorded net income loss of \$54,460 in 1984.

In short, DFC has taken action in the past two years to reduce their arrearages and expenses, increase their reserve fund, and almost double their assets. Taken in concert with the action initiated in early 1986 to further improve their portfolio position, it is evident that DFC's management is moving quickly to improve its overall financial condition.

Based on the improvement evident in DFC's management of its portfolio, AID/Belize is not recommending at this time that DFC take any additional actions. AID/Belize will, however, closely monitor actions taken by DFC to further improve its financial position and will recommend additional actions as warranted.

Of all the institutions in Belize, both public and private, the DFC is one of the most adequately staffed agencies to assume the new initiative of offering home improvement loans in urban areas. With the ascendance of a new and businesslike General Manager, it is AID's assessment that the institution will be able to manage this new feature of the home improvement loan program.

The effects this proposed modification will have on the project are as follows:

1. Enable a large number of beneficiaries to be serviced over a short period of time;
2. Reduce the GOB burden to cover interest payments on the outstanding balance of the HG escrow account;
3. Continue support to the Belize Credit Union system;
4. Improve the housing stock of Belize City where the majority of people currently live;
5. Provide flexibility to pay for on-site water and sewer connections to complete the CIDA funded water and sewer system for Belize City thus creating the opportunity to avoid the complete economic loss of this fixed capital investment;
6. Since the loan amount for the DFC would be raised to the level the BCUL can now lend, the total number of loans for the program would be reduced from 1,300 to approximately 1,200; and
7. There will be no change in the target group to be served by this program. AID will continue to serve below median income families throughout Belize.