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# ANALYSIS OF THE CONSTRAINTS LIMITING ACCESS TO INVESTMENT CREDIT IN BELIZE

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Development Alternatives, Inc.
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April 2, 1987

Mr. Peter Lapera
Project Development Officer
USAID/Belize

Dear Peter,

Following the discussions held by the DAI team with you, as well as with Mr. Brashich, I wish to confirm the strategy that we feel should be pursued by USAID/Belize in designing, and hopefully at some future date implementing, its proposed Investment Credit Project, the aim of which is to make available to local business operators medium- and long-term credit for investment purposes.

Assessment of Credit Demand

As outlined in our draft PID, there is without doubt a substantial unmet demand for term credit related to bona fide projects developed by local entrepreneurs, or by local partners in conjunction with foreign investors. Not surprinsingly, strong demand was found in the agricultural production sector (particularly winter vegetables and tropical fruits) and tourism (hotel remodeling, expansion and construction), with other meaningful potential demand in fishing and shrimping, and possibly forest products, shrimp farming and livestock. Such demand would clearly justify a new AID project at any time in the near future.

Absence of an Acceptable Institutional Framework

As you are well aware, DAI's PID design team has reviewed during its stay the three principal options that appeared to offer most potential as institutional mechanisms for a new project. These were: (1) using the Development Finance Corporation as a channel for AID funds; (2) encourage the creation of a new private finance company through the locally-sponsored Belize Investment Group; and (3) negotiate the opening of an investment credit "window" within the yet-to-be-established Belize Bank for Commerce and Industry.

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For reasons that became apparent during our discussions and which were expanded upon verbally as well as in our draft PID, we do not believe that any of these options offers immediate potential as an institutional channel for the project. Although all three options should be actively considered by AID in the future, we thus believe that it would be preferable for the mission to hold off on the presentation of a PID to AID/Washington at least until such time as a definitive and acceptable institutional setup is identified. In the mean time, we have, before it became clear that a PID review in Washington by end-April would not be advisable, developed a draft PID (see attached), which will hopefully constitute the base of any future PID presented to AID/Washington.

Proposed Strategy

We believe that there are still important steps that USAID/Belize can, and should, take in preparation for future initiatives designed to strengthen local credit markets. These would include:

(1) undertaking negotiations as appropriate with the future Belize Bank for Commerce and Industry and/or with Atlantic Bank with respect to their possible interest in opening up an investment credit "window" that would draw on future AID project funds;

(2) providing continuing encouragement and support to the Belize Investment Group, possibly to include technical assistance in the development of a full-fledged business plan,

(3) holding preparatory discussions with the Development Finance Corporation, in anticipation of a comprehensive institutional and financial evaluation;

(4) a continuing dialogue with the World Bank and other international organizations interested in credit markets in Belize (such as the Caribbean Development Bank and the European Investment Bank), geared towards a coordination of programs in Belize; and

(5) a continuing dialogue on credit issues with key government entities, particularly the Central Bank and the Ministry of Finance.

Aside from a draft PID, we have produced two other documents that complement our preparatory work in Belize: (1) a position paper to be addressed by USAID to the government on a number of critical

institutional issues; and (2) the outline of a prospectus for the Belize Investment Group, to be further developed before our departure. Both these documents are also attached to this letter.

We remain confident that in the course of time these initiatives will lead to an acceptable project framework for AID. In the mean time, we wish to express our interest in having worked on this project, and to confirm that we would be happy to consider any future work related thereto, be it an evaluation of the Development Finance Corporation, the development of a business plan for the Belize Investment Group, or the fine-tuning of technical aspects of the PID if and when time has come to take renewed steps towards project implementation. We would certainly appreciate being kept abreast of any future developments or initiatives taken by the mission.

David Harmon and I wish to extend our thanks to you personally for making our stay both fruitful and pleasant. Also to be thanked are Mr. Brashich, other AID staff in your office, Matt Tokar, as well as numerous members of the local financial and business community for their active cooperation and sharing of data.

Sincerely,

Jean-Jacques Deschamps
Director, Private Sector
Development Division

PROJECT IDENTIFICATION DOCUMENT FOR INVESTMENT CREDIT PROJECT (DRAFT)

April 1987

# PROJECT IDENTIFICATION DOCUMENT

# INVESTMENT CREDIT PROJECT

(DRAFT)

Prepared for USAID/Belize

by:

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and
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## I. RELATIONSHIP OF PROJECT TO COUNTRY PROGRAM

(to be completed by USAID/Belize)

## II. PROJECT RATIONALE

USAID/Belize's proposed Investment Credit Project was developed in response to the existence of a critically-important demand for medium- and long-term credit that is not presently addressed by local financial markets. These separate but intertwined demand and institutional factors are analyzed below as the two key issues that this project attempts to address.

### 1. The Demand for Investment Credit

Availability of medium and long term credit is a serious constraint for Belize's private sector. While the commercial banks denied that there was any large-scale demand for such credit, a sectorial review of specific credit requirements confirmed a strong unmet demand for medium- as well as long-term credit.

As oulined in Annex A, tourism and agriculture are the two principal sectors calling for early access to medium and long term credit. .In order to provide the necessary infrastructure to support a growing tourist trade (10-15% compounded increase anticipated over the next five years), medium- and long-term credit needs have been estimated at U.S. 4.5 million for hotel upgrading/renovation, U.S.$ 3.8-5.1 million for hotel expansion, and $ 3.1 million for restaurants, for a subtotal of $ 11.4 - 12.7 million. If potential new hotel construction is added, the total demand for credit for tourism increases by another $6.3-22.5 million to $17.7 - 35.2 million

The agricultural sector has an unparalleled opportunity to take advantage of a "window" in the supply of row crop vegetables to the United States. There are two major clusters of investors for row crops. The first one is linked to the Belize Agribusiness Company, a firm started in connection with an AID-funded project designed to diversify the crop production of several thousand small farmers in the northern part of the country to move them into vegetables and orchard crops (for export), and oilseed crops (domestic market). A second group is constituted by four large individual investors/farmers who are just getting into production. If one or more of these four are successful, eight to ten large-scale growers will likely follow suit within five years. The potential medium and long term credit needs of BABCO-related farmers and of large

individual growers has been estimated at respectively $ 17.1 million and $10.6-13.3 million for a total of $27.7- 30 million for the 1988-1990 period.

It is not possible to quantify credit requirements with any degree of accuracy in other major sectors due chiefly to lack of information, newness/riskiness of the industry, and/or the present small size of the industry. However, if one includes realistic credit needs in fishing, lumber/wood products, shrimp farming, garments, and to a lesser extent food processing, the aggregate demand for medium and long term credit over the next four to five years can be estimated at $50-$75 million, depending largely on the success of tourism promotion efforts and of agricultural exports to the United States.

2. The Absence of Feasible Institutional Mechanisms

Although Belize is in some respects overbanked for a country of its size (there are four commercial banks operating locally plus a host of other institutions), local institutions have been unwilling to make critically-needed term credit available in meaningful amounts to either existing businesses or for new investments, nor have these institutions indicated their readiness to do so or develop a capacity to do so in the future.

This situation clearly does not result from a lack of available funds on the part of the banks, since the latter have now been overly liquid for the past several years. Also, local banks were indeed given a golden opportunity to expand their lending program into project-type financing under USAID's Commercial Bank Discount Fund (launched in 1983), but they chose to forego that opportunity. To the contrary, the principal cause of the banks' lack of involvement in term credit activities can be traced back to a traditional aversion to such type of lending, stemming from their conservative lending procedures (no doubt encouraged by their head offices), lack of incentive to diversify away from their existing highly profitable short-term lending activities, the absence of an in-house project analysis capacity, and the high level of perceived risk.

Aside from the banks, limited project-type financing has been made available by the government-owned Development Finance Corporation (and selectively by the National Development Foundation of Belize and by LAAD), but as will be seen in the analysis of key project factors (Section IV) the DFC is definitely not at present an appropriate institutional channel for AID project funds.

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This leaves USAID with little alternative but to help set up a new institutional mechanism designed to channel term credit to bona fide entrepreneurs on reasonable conditions and on a timely basis. Thus, the intention of this project is to give Belize's export-oriented economy a dynamic push by helping to remove the key credit constraint that to date has hampered private sector initiative.

## III. PROJECT DESCRIPTION

### 1. Project Goal and Purpose

The project goal (objective) is to allow local entrepreneurs to invest in new productive ventures that will result in improved economic performance and higher export earnings for the country.

The project purpose is: (1) to make medium- and long-term credit available to credit-worthy private sector operators; and (2) to develop over the life of the project a capacity within one or several participating institutions to extend such credit in an efficient and responsive manner as well to manage a term loan portfolio under financially viable conditions.

### 2. Project Outline

#### a. Institutional Mechanisms

The Investment Credit Project will revolve around: (1) a newly-established Investment Credit Unit; and (2) one or several participating financial institutions that will access project funds as well as technical expertise through a rediscount mechanism managed by the Unit.

As envisioned, the Investment Credit Unit (ICU) will manage the project's credit funds on behalf of AID. It will be headed by a senior, proven credit systems specialist with particular experience in project financing, and may also conceivably comprise a project analyst and a loan administration specialist. Wherever the ICU is actually based, it is in view of the lack of project analysis expertise in country more than likely that the Unit will have to rely during initial phase of operation of outside technical assistance. Such technical assistance will be available under the Project as described in subparagraph d. below.

USAID/Belize believes that the ICU should be ideally

established as a unit of the Central Bank, with the latter then responsible for appointing and/or hiring its staff. Such a set-up would present the advantages of: (1) establishing the government as the direct borrower of AID funds; (2) involving the government and the Central Bank into the Project; and (3) ensuring the unit's permanency, and conceivably allowing the ICU to manage USAID, but also IBRD and other donor funds channeled through the government. However, the Central Bank believes that housing the ICU within its own offices would "cloud" its long-term objectives, which it sees as being the regulation of financial markets, excluding any direct involvement in credit activities. The appropriate "housing" and reporting lines of the ICU will thus have to be reviewed further during project design.

The ICU will channel credit funds to one or several participating financial institutions (PFIs). In view of the attitude of local banks and of USAID's experience under the Commercial Bank Discount Fund, the careful selection of PFIs will be critical to project success. It is AID's intention to select them on a case-by-case basis, on the strength of each one's clear interest to participate in the Project and its existing as well as future institutional capacity in the areas of project analysis and portfolio management. The approval by AID of each individual PFI will be considered on the basis of a comprehensive institutional analysis to be completed in cooperation with the ICU and with the assistance of the ICU technical assistance team.

As already noted, there is currently a dearth of financial institutions with an established capacity to identify, promote, appraise, and monitor medium- to long-term projects. However, a number of encouraging developments have taken place that make USAID/Belize confident that at least one satisfactory PFI will be identified in the course of designing this project. The two following groups present particular potential as PFIs:

- the Belize Investment Group (BIG), which was established with the mission's encouragement and which aims at raising seed capital from the local business community and from the Belizian community in the U.S. for investment into productive local ventures (commitments of U.S.$175,000 have already been obtained locally, and the group is poised to undertake a fund-raising drive in the U.S. through the U.S.-based Consortium for Belizian Development). The BIG is currently considering a number of options, such as helping establish and capitalize an investment "window" at Atlantic Bank, or creating a direct investment company that would access loan funds from

the ICU. A definitive strategy will be established shortly on the basis of upcoming discussions between the BIG and Atlantic Bank, and it is also USAID/Belize's intention to provide the BIG with direct technical assistance at the project design stage for the development of a comprehensive business plan.

- the newly-established Belize Bank for Commerce and Industry (BBCI), which opened its doors on April 15, 1987 by taking over the existing Royal Bank of Canada branch. The BBCI is 75 percent-owned by British businessman Mr. Michael Ashcroft, who indicated to USAID that ...(to be completed by AID after mid-April meeting).

Although the above two institutional set-ups offer the only strong prospects at this stage, it is conceivable that other financial institutions would be considered as PFIs in the future, among which the Development Finance Corporation (but not before it is restructured and its loan portfolio is cleaned up), the National Development Foundation of Belize (for the smaller-type projects of say up to U.S.$25,000), and possibly others. A preliminary analysis of these various institutional options will be found in Chapter IV.1 below.

b. Loan Funding Procedures

Once an institution is approved as a PFI, it will be in a position to access project funds through a rediscounting mechanism similar to the one set up under the existing Commercial Bank Discount Fund. However, the new Investment Credit Unit mechanism will also greatly differ from the Discount Fund in the following important respects:

- the ICU will have a strong in-house capacity to actually analyze loans and undertake full-fledged feasibility analyses before approving individual subloans submitted by a PFI; and

- it will rely on PFIs that will have a clear interest and a proven capacity to manage a portfolio of investment loans (this has clearly not proven to be the case for commercial banks under the Discount Fund).

The ICU will discount up to 75 percent of subloan amount. This percentage is considered to be high enough to provide incentive to the PFI(s) to actively use project facilities, while still ensuring that the latter will have sufficient stake in the subprojects so as to carefully appraise and monitor them on

their own accord. The issue of a guarantee scheme will be reviewed further with potential PFIs and the Central Bank at Project Paper stage, but any repayment guarantee provided under to the Project to PFIs would in any case be modest (up to 50 percent maximum).

c. Subloan Characteristics

To be eligible for rediscounting, subloans will have to: (1) be for investment purposes, i.e. for the acquisition, development or expansion of productive or income-generating capacity; and (2) offer the potential to generate foreign exchange earnings or savings for Belize. However, flexibility will be shown in the application of these subloan criteria. For instance, a project designed to produce for the local market could still qualify under the Project if it offered clear economic benefits to the country such as creation of new jobs or substitution of imports (since Belize's economy is decidedly export-oriented, it is still more than likely that the vast majority of projects will present a strong export-earning potential). Also, accomodations will be made to the application of the first eligibility criteria, allowing subloans to include a working capital component if project success hinges on availability of the latter (the entrepreneur will normally be requested to finance at least 20-30 percent of total project cost).

On the basis of the demand analysis undertaken by the PID design team, it is anticipated that the bulk of the loans will go to the agriculture and tourism sectors, with the remainder going to other productive investments such as deep-sea fishing, shrimping, shrimp farming, forest products and food processing.

Subloans will normally carry terms of up to seven years, although terms of up to 15 years will be considered for construction or expansion of physical facilities. Grace periods of up to 2 years (and 4 years for certain tree crops and for construction) will be considered, during which time interest payments will remain due. However, neither maximum grace period nor maximum terms will be automatic for a particular type of loan, as these will be granted for each individual project on the basis of projected cash flows.

Subloans will be made at market rate conditions, i.e. at interest rates no lower than the Central Bank-established Prime Rate (currently 12 percent). In order to provide sufficient incentive to PFIs -- as well as to cover their lending risk -- they will be offered a spread of no less than 5 percentage points, i.e. the rediscount rate should not be higher than 7 percent under present interest rate conditions (this would

still leave the Central Bank with a healthy 5 points-spread to cover its risk as well as the cost of operating the ICU).

The option of allowing the ICU to use AID loan funds to invest in the form of equity in individual projects will also be investigated during project design. Although such equity investments would be limited to say 10 percent of the ICU's total portfolio, the option may prove attractive where it constitutes the only reasonable method to achieve a favorable mix of equity vs. loan funds in a given project.

d. Technical Assistance

The creation of an institutional capacity to manage a portfolio of medium- and long-term loans to local ventures is together with the infusion of initial credit funds the other major objective of this project. Since there is no in-country capacity in this area, such institutional capability will be created at the level of both the ICU and the PFI(s) through the provision of highly specialized technical assistance to be contracted by USAID/Belize under an institutional contract.

A three-person technical assistance team is presently being considered by USAID, including: (1) a senior credit systems specialist as Chief of Party; (2) a specialist in project analysis/feasibility analysis; and (3) a loan administration and monitoring specialist. The team will be based at the ICU (i.e. presumably at the Central Bank). Its principal task will be to assist the ICU in analyzing specific subprojects submitted for discounting and in managing its portfolio of loans. In so doing, it will also be training its ICU counterparts in team members' respective areas of expertise. An equally important responsibility of the team will be to make available its technical expertise to the participating financial institution(s), helping them in appraising potential projects and providing their staff with on-going guidance and training in project identification, project promotion, economic and financial analysis, and project administration and monitoring. At yet a third level, the technical assistance team will make its expertise in project development and feasibility assessment available to individual private sector operators, although such assistance will be normally provided for a fee.

3. Anticipated Achievements

The project is expected to generate four types of benefits for Belize, each of which will be analyzed separately below: (1) improved access by private sector operators to medium- and

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long-term credit; (2) establishment and continued building through technical assistance of an institutional capacity to manage a portfolio of term loans; (3) improved performance and growth in key hard currency-earning sectors such as agricultural production and tourism, with a concurrent positive effect on the country's balance of payments; and (4) new employment opportunities.

a. Improved Access to Term Credit

The Project is designed to channel U.S.$3 million of fresh credit funds into the local private sector. Term credit is expected to represent the bulk of that total, as working capital-type financing will be granted only in exceptional cases as a component of an overall financing package.

It is not possible to quantify the amount of term credit available today in Belize. Commercial banks are not in a position, or do not wish, to provide an estimate of the little amount of term credit that they provide to their best customers. Credit terms granted in such cases by these banks are anyhow inadequate; typically, a major local businessman reported that his bank did not consent to terms beyond five years for construction of a new store. As for the DFC, in theory the only significant purveyor of term credit to the private sector, its lending activity has appeared to have all but dried up over the past several years (DFC lending is expected to pick up again soon following the recent signature of a loan agreement between the DFC and the Caribbean Development Bank).

In addition to making term loans available to the credit-starved private sector, the Project will also ensure that the lending program will be managed both efficiently and flexibly at the level of the PFI(s), which will be expected to make available to local entrepreneurs a quality of service offered neither by the DFC nor by the commercial banks. As cases in point:

- project promoters will have access as required to quality technical assistance throughout the development and appraisal of their projects;
- appraisal of projects will be of a quality and thoroughness not available in Belize today;
- flexibility will be shown with respect to collateral requirements, as lending decisions will be based first on project feasibility, and only secondarily on available security (contrary to the DFC or to the

banks which will demand unreasonably-high collateral as a compensation for poor project review); and

- o the entire loan appraisal, review, approval and disbursement process is expected to be substantially speedier than anything presently offered in local financial markets.

b. Development of an Institutional Capacity

The Project will establish and help strengthen the capacity of local institutions to manage a portfolio of loans to private sector promoters. As already mentioned, this capacity will be developed both at the level of the Investment Credit Unit (presumably located in the Central Bank) and within each approved participating financial intermediary. Moreover, this institutional capacity will be of a permanent nature; through the transfer of technical skills from members of the technical assistance team to their local counterparts, it is anticipated that a strong technical capability will have been developed within local institutions by project completion date.

In the case the ICU is indeed established within the Central Bank, it will for the first time provide the latter (and thereby the government) with an extremely valuable capacity to actually participate in the promotion and selection of projects that offer best potential for the country. As already mentioned, this capacity can be applied to other non-AID funded programs, such as those being considered by IBRD and other international agencies.

c. Growth in Key Export-oriented Activities

(to be completed by USAID/Belize)

d. Employment Generation

(to be completed by USAID/Belize)

## IV. ANALYSIS OF KEY PROJECT ISSUES

### 1. Analysis of Alternative Institutional Mechanisms

A number of institutional arrangements were considered by USAID in the course of developing this PID. The design team specifically analyzed three options which offered potentially acceptable mechanisms for the Project. These were: (1) using

the Development Finance Corporation to channel AID credit funds to eligible subborrowers; (2) support the creation of a private finance company, to be started up and capitalized by the AID-supported Belize Investment Group; and (3) encourage the newly-established Belize Bank for Commerce and Industry (BBCI) to open an investment credit "window".

Table 4.1 summarizes the advantages and constraints of each one of these alternatives. As stated in this table, each one of these three core options was found to present limitations strong enough so as to prevent the mission from committing itself exclusively to any one of them:

(a) The Development Finance Corporation (DFC) has been marred over the years by political pressure and influencing in its overall lending activity, and more specifically in the subloan approval process. Although this has reportedly no longer been a problem n the past two years under the new administration, the DFC is still being hampered by a high percentage of non-performing loans, estimated to be anywhere between 10 and 50 percent of the portfolio, but more likely to be at least 40 percent (the DFC has promised its main donor the Caribbean Development Bank as well as IBRD that an analysis of delinquent loans would be available shortly). Additionally, a cursory review of DFC operations by the PID design team has shown that operating procedures are burdened by a slow loan review process, a capacity to identify and monitor projects which is dubious at best, and general bureaucratic inefficiencies. In any case, it would not be wise for USAID/Belize to commit itself to working with the DFC at least before the institution is restructured and strengthened under CDB and IBRD auspices.

(b) The Belize Investment Group (BIG) was set up by a group of local businesspeople with the encouragement and active involvement of USAID with the aim of raising seed capital for development projects. The initial idea was to raise around U.S.$1 million both in Belize and through the Consortium for Belizian Development in the U.S. as start-up capital for a new private finance company. The design team, however, found three major constraints attached to the channeling of AID funds through a BIG-sponsored private finance company: (1) BIG's ability and prospects to raise U.S.$1 million is doubtful; (2) discrepancies of objectives were found among key members of the group, and there was a general lack of understanding of what starting a new financial institution was all about; and (3) it is estimated that start-up time for a new such institution would be approximately two

Table 4: 1 - USAID/Belize - Export Investment Credit Project
Advantages and Constraints of Various Alternative Institutional Channels

| | Advantages | Disadvantages |
|---|---|---|
| 1. Development Finance Corporation | --Use of the only existing finance institution in Belize<br>--Takes advantage of DFC's expertise in project analysis, of its professional staff and of its offices.<br>--AID and IBRD would both be using DFC as implementing institution for their credit projects. | --DFC is a public, politically oriented institution.<br>--DFC's existing loan portfolio is of mediocre quality at best, and its capacity to identify & monitor projects is dubious.<br>--AID would be committing itself to DFC before full effect of other efforts to restructure and strengthen it. |
| 2. Belize Investment Group | --Uses a private institution set up through joint efforts of local business community.<br>--First-time-ever effort to involve expatriate Belizeans in the development of Belize.<br>--Diversified ownership & control<br>--Possible opportunity to use Atlantic Bank as "seat" of new institution | --Questionable ability to raise sufficient equity capital from Belizean investors.<br>--Discrepancy of objectives between group members & lack of understanding of what a financial institution is all about.<br>--Time and cost involved in making new institution fully operational, including problems related to recruitment of management staff |
| 3. BBCI | --Use of BBCI's existing management structure, staff, offices & legitimacy<br>--AID's objectives will hopefully piggyback new ownership's interests<br>--New investment window could be operational on fairly short notice. | --Unknown intentions of new ownership (at least until March 29 meeting with Mr. Ashcroft).<br>--Ownership concentrated in one hand<br>--Lack of development banking experience. |

years, during which time essentially no AID credit funds would be available to the local economy.

(c) the Belize Bank for Commerce and Industry (BBCI) appeared to offer the best potential as channel for AID funds, insofar as this option would have made use of an existing financial institution, now owned 75 percent by development-minded Mr. Michael Ashcroft

(USAID/Belize to complete status of negotiations after anticipated May meeting with Mr. Ashcroft).

USAID/Belize is confident that a satisfactory institutional set-up will be identified during project design, with the most promising prospects being the BBCI and a possible tie-in between the BIG and an existing bank (Atlantic Bank or the same BBCI). In any case, the PID design team has concluded that it would be desirable to give a chance to several institutions to develop a capacity to analyze and manage a portfolio of term loans to the private sector during the course of the Project.

This can be best achieved through the establishment of a separate unit that will manage project funds on behalf of AID as well as make its own project analysis capability available to participating financial institutions (see Chapter III.2. for a description of the proposed responsibilities and functioning of this unit). Although the location and reporting lines of this unit will be further analyzed during final project design, it would appear desirable to house this unit within the Central Bank, both to develop within the latter an understanding of the constricting financial conditions under which the local economy is operating and hopefully to allow IBRD and possibly other donors to use this unit as a channel for funds for their own credit programs.

2. Functioning of Local Financial Markets

Belize's financial markets are characterized by:

- a relatively liberal and open regulatory environment;
- a high level of real interest rates, both on the deposit and on the lending sides;
- high liquidity levels;
- general shallowness of the system;
- the dominant position held by branches of foreign

banks; and

- o a high concentration on short-term instruments, particularly from a lending standpoint.

Commercial banks are operating in a relatively open regulatory environment set by the Central Bank. Although for reasons that are discussed below the banks are tied to floor interest rates on deposits as well as loans, they are not tied to any government guidelines applicable to the allocation of credit or to specific lending ratios, and they are as such entirely free to apply their resources as they please. The only ratios that banks are liable for are: (1) paid-up capital and reserves are to represent at least 5 percent of all deposit liabilities (client deposits); (2) liquid assets should represent at least 30 percent of average deposits; and (3) 15 percent of net income should be applied each year to reserves. In addition, banks are to maintain at the Central Bank non-interest bearing reserves currently set at 9 percent of average deposits. Lastly, in order to limit maximum exposure, banks cannot lend more than 25 percent of capital funds to any single client or group.

The Central Bank has been maintaining consistently high rates of interest through the imposition of floors on both deposit and lending rates applied by commercial banks. Although local inflation has come down to 1.8 percent in 1985 (IBRD figure) and to 0.8 percent in 1986 (Central Bank estimate), the minimum lending rate is still set at 12 percent (down from 14 percent in December 1986), while deposit rates range from 5 percent on ordinary passbook savings to as much as 12 percent on two-year fixed deposits. Such high real rates of interest are intended to encourage savings and discourage borrowings, a policy designed to protect Belize's currency reserves that are so vital to the smooth functioning of the country's economy (high consumption rates and high levels of borrowing would supposedly have a direct negative impact on import requirements). Current interest rate policy will be maintained by the Central Bank as long as government borrowing requirements remain high.

On the other hand, high interest rates have had a positive effect on savings levels, and are presumably a factor in the high level of liquidity of the financial system. In September 1986, total liquidity in banks represented as much as 44.6 percent of average deposits vs. the required 30 percent ratio (total liquid assets: B.$75 million vs. the required B.$ 50.5 million). There is little doubt however that the principal factor behind excess liquidity in the system is the banks' timid approach to lending. Since banks have no intention to involve themselves in aggressive new lending, they have

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reportedly been reluctant to take large deposits of 3 months or more (3-month deposits yield 10 percent, vs. 8 percent for shorter-term time deposits).

Local financial markets are dominated by branches of foreign banks. Market share of the various local banks can be estimated as follows:

| | Total Assets (B.$ million) | Market Share (%) |
|---|---|---|
| Royal Bank of Canada (now BBCI) | 80 | 35 |
| Barclays | 70 | 30 |
| Bank of Nova Scotia | 70 | 30 |
| Atlantic Bank | 10 | 5 |
| Total | 230 | 100 |

All in all, local financial markets suffer from the shallowness that is typical of countries of similar levels of development. Using usual IBRD benchmarks to measure depth of financial markets, narrow money supply (M1) represented 16.5 percent of GDP at 1985 year-end. The more significant ratio of money and quasi-money (M2, or broad money supply) to GDP stood at 32.5 percent, somewhere between levels achieved in Kenya and Thailand, while total assets of deposit banks represented 58.1 percent of GDP, a level similar to countries like Nigeria, Thailand and Kenya, but typically well below levels seen in industrial countries (87 percent in the U.S. in 1981, 110 percent in Germany and 161 percent in Japan).

Lastly, but most importantly for the purposes of this project, local financial markets are characterized by the excessively conservative lending criteria and short lending terms granted by local banks to prospective borrowers. Typical of the banks' lending policies are:

- credit limited to existing clients or to those with a well-established credit history;
- even for all but the very best clients, credit limited mostly to trade financing and/or to the discounting of receivables, with usual terms of 90 days or less;
- high interest rates of 15-18 percent depending on borrower status (vs. an average cost of funds to the banks estimated to be 8-9 percent); and
- excessive collateral requirements of at least 150 percent of loan amount, although the borrower will typically be required to pledge all his assets to the

reportedly been reluctant to take large deposits of 3 months or more (3-month deposits yield 10 percent, vs. 8 percent for shorter-term time deposits).

Local financial markets are dominated by branches of foreign banks. Market share of the various local banks can be estimated as follows:

| | Total Assets (B.$ million) | Market Share (%) |
|---|---|---|
| Royal Bank of Canada (now BBCI) | 80 | 35 |
| Barclays | 70 | 30 |
| Bank of Nova Scotia | 70 | 30 |
| Atlantic Bank | 10 | 5 |
| Total | 230 | 100 |

All in all, local financial markets suffer from the shallowness that is typical of countries of similar levels of development. Using usual IBRD benchmarks to measure depth of financial markets, narrow money supply (M1) represented 16.5 percent of GDP at 1985 year-end. The more significant ratio of money and quasi-money (M2, or broad money supply) to GDP stood at 32.5 percent, somewhere between levels achieved in Kenya and Thailand, while total assets of deposit banks represented 58.1 percent of GDP, a level similar to countries like Nigeria, Thailand and Kenya, but typically well below levels seen in industrial countries (87 percent in the U.S. in 1981, 110 percent in Germany and 161 percent in Japan).

Lastly, but most importantly for the purposes of this project, local financial markets are characterized by the excessively conservative lending criteria and short lending terms granted by local banks to prospective borrowers. Typical of the banks' lending policies are:

- credit limited to existing clients or to those with a well-established credit history;
- even for all but the very best clients, credit limited mostly to trade financing and/or to the discounting of receivables, with usual terms of 90 days or less;
- high interest rates of 15-18 percent depending on borrower status (vs. an average cost of funds to the banks estimated to be 8-9 percent); and
- excessive collateral requirements of at least 150 percent of loan amount, although the borrower will typically be required to pledge all his assets to the

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TABLE 4.2: Comparative Indicators of Financial Depth
(Expressed as Percentage of GDP)

| | Money (M1) | Money & Quasi-Money | Assets in Deposit Banks | Per Capita income (US $) |
|---|---|---|---|---|
| Belize | | | | |
| 1980 | 12.7 | 19.6 | 43.6 | - |
| 1982 | 12.7 | 28.3 | 58.3 | - |
| 1984 | 15.3 | 30.4 | 60.0 | - |
| 1985 | 16.5 | 32.5 | 58.1 | - |
| Lower Income (1981) | | | | |
| Bolivia | 19 | - | 21 | 600 |
| Indonesia | 11 | 18.9 | 24 | 520 |
| Kenya | 18 | 28.2 | 56 | 430 |
| Nigeria | 22 | - | 50 | 870 |
| Thailand | 9 | 36.1 | 51 | 770 |
| Middle Income (1981) | | | | |
| Argentina | 7 | - | 36 | 2,380 |
| Brazil | 7 | - | 38 | 2,210 |
| Korea | 9 | - | 96 | 1,719 |
| Mexico | 10 | - | 34 | 2,070 |
| Portugal | 44 | - | 132 | 2,530 |
| Industrial (1981) | | | | |
| Germany | 16 | - | 110 | 13,563 |
| Japan | 29 | - | 161 | 10,217 |
| Spain | 26 | - | 90 | 5,764 |
| United Kingdom | 15 | - | 93 | 8,956 |
| U.S.A. | 15 | - | 87 | 12,513 |

bank whatever the ratio of pledged assets to loan amount may be.

Particularly relevant to the Project is the fact that not only are local banks not willing to entertain project-type financing, but that they do not have in-house capacity to undertake project analysis or feasibility-type studies (such credit applications are to be referred to head office). Commercial banks' reluctance and/or lack of incentive to extend medium- to long-term loans has been in fact great enough to make them pass up the opportunity to expand their lending activity under USAID's Commercial Bank Discount Fund, despite favorable rediscounting facilities and access to a guarantee scheme that covered under certain conditions up to 75 percent of potential loan losses.

The only financial institution to provide term credit in Belize is presently the Development Finance Corporation. Unfortunately, it has been hampered over the years by severe problems such as interference of pulic officials in the loan approval process (at least up to 1984), poor project selection and lack of project monitoring. As a result, the quality of its loan portfolio can be characterized as dubious at best, with realistic estimates of its delinquent loans in the 40-50 percent range.

> Note: to date, the DFC has not made data on portfolio quality available to either USAID or the World Bank, or for that matter to its main purveyor of funds the Caribbean Development Bank. There are however ominous signs that its bad loan ratio may be of significant magnitude, such as the fact that lending activity has been falling substantially in the past two years (probably due to weak reflows from existing loans), and that interest income has also been falling according to preliminary 1984 figures (no annual report has been produced since...1983!).

It was thus clear from this analysis that new institutional channels had to be identified in the course of designing the project in order to feed term funds into the credit-starved private sector.

3. Economic Factors

The Project will generate clear economic benefits for Belize:

- it will allow for new investments in key economic

activities such as production and export of winter vegetables and tropical fruits, expansion of the existing hotel infrastructure, fishing, shrimp production, etc;

- o it will thus generate growth and increased levels of employment in these sectors;
- o it will produce critically-important foreign exchange earnings for the country; and
- o it will through backward linkages lead to increased production levels in primary productive areas such as smallholder as well as large-farm agriculture, tourism-related services, construction, lumbering, etc.

A detailed economic analysis of the Project will be undertaken during project design, with particular emphasis on the Project's foreign exchange, employment and local value added implications.

4. Estimated Costs and Methods of Financing

(to be completed by USAID/Belize)

5. Proposed Design Strategy

Since a detailed demand analysis has already been completed at the PID stage, the following factors will have to be analyzed in detail during project design:

DEMAND ANALYSIS

- Further review of credit needs from individual, large-scale vegetable/tropical fruit growers, as well as for forest products, food processing, fishing and shrimp farming as required.
- Examine potential credit demand of the Free Trade Zone in Santa Helena.

INSTITUTIONAL ISSUES

- Detailed analysis of the status, responsibilities, staffing and operating mode of the Investment Credit Unit, including its reporting lines within (or without) the Central Bank.
- Timetable for establishment of the unit, and outline of government and/or other responsibilities and commitments.
- Establishment of selection criteria for participating

financial institutions (PFIs).
- Review of the status of negociations with the Belize Bank for Commerce and Industry and the Belize Investment Group (as well as Atlantic Bank if applicable).
- Analysis of the Development Finance Corporation (to extent possible).
- Agreement in principle with at least one PFI.

FINANCIAL ISSUES
- Negociations with the government (if applicable), the Central Bank (also if applicable) and the PFI(s) on interest rates and spread.
- Detailed review of subloan eligibility and characteristics.
- Analysis of the appropriateness of allowing the PFI(s) to make direct equity investments in private sector firms.
- Overall financial analysis of the Project, including cash flow projections over five-year period.

ECONOMIC ANALYSIS
- Detailed economic analysis of the Project, with particular emphasis on foreign exchange, local value added and employment implications.

TECHNICAL ASSISTANCE REQUIREMENTS
- Preparation of detailed scopes of work of technical assistance team.
- Outline of the critical issues to be considered in issuance of Request for Proposals.

OTHER
- Continued dialogue with the IBRD and other donors with respect to coordination of donor assistance as well as technical assistance at the level of the Investment Credit Unit.
- Social soundness analysis (?).
- Environmental analysis (?).

# ANNEX A: DEMAND FOR CREDIT ANALYSIS

Light Manufacturing, Forestry, Other

| Name of Project | Purpose | Amount of Loan | Status of Loan Request |
|---|---|---|---|
| 1. Eden Real Estate Co. | Offices for foreign business operations/ hotel complex | $ 295,629 | Pending |
| 2. Belize Timber Ltd. | Expansion of timbering/ lumbering operation | 1,500,000 | Applied for CBDF loan, but encountered problems with the commercial banks. Received loan ($1,500,000) from OPIC |
| 3. Alliance Furniture | Shed, kiln, finishing room | 100,000 | A viable project, but principal frustrated by commercial banks |
| 4. Fraylon Gilharry Tyre Recapping and Servicing Plant | Tire recapping | 162,000 | A viable project, but principal frustrated by commercial banks |
| 5. Sweater Cottage Industry | Garments | 187,200 | A viable project; had firm contracts, but principal frustrated by commercial banks |
| Total Light Manufacturing, Forestry, Other | | $2,244,829 | |
| Total Tourism, Agriculture, Light Manufacturing | | $8,727,829 | |

Analysis of BEIPU Records

Another source of information on investments requiring medium- and long-term credit is the Belize Export and Investment Promotion Unit (Table 2). A search of the 650-strong client database of those individuals/companies/ organizations that expressed a business interest in Belize since 1982 to date identified 26 individuals and companies with the following characteristics: (a) in need of financing; and (b) were evaluated as being at least a strong prospect to invest or desirous of expanding an existing operation previously started under the auspices of BEIPU (five of these were excluded for being included in the Commercial Bank Discount Fund analysis).

While BEIPU data does not include the clients' local credit needs, it does give an indication of business activities and investment size. Most of BEIPU clients are Americans, many are residents in Belize, and some have Belizeans as joint venture partners. One owner is Belizean. From the type of investment, its size (amount needed), and in a few cases knowledge of the investment itself, one can make a judgment as to whether the financing needed will likely be local, e.g., banks, DFC, or new USAID project, or external to Belize, e.g., private investors, CDC, IBRD, IFC, CDB, etc. Following is a list of these BEIPU identified projects:

Table 2

BEIPU PROJECTS

| | Type of Investment | Total Financing Needed | Likely Source (Local-outside) |
|---|---|---|---|
| 1. | Hotel (new) | $3,500,000 | Mostly outside |
| 2. | Hotel (new) | 100,000 | Local |
| 3. | Shrimp farming (underway) | 1,000,000 | Mostly outside |
| 4. | Shrimp farming (new) | 300,000 | Local? |
| 5. | Shrimp farming (underway) | 1,000,000 | Mostly outside |
| 6. | Crawfish (new) | 100,000 | Local |
| 7. | Veneer production (new) | 2,500,000 | Investor would put in $1.3 mil.; remainder outside/local |
| 8. | Furniture (new) | 100,000 | Local |
| 9. | Wood products (new) | 100,000 | Local |
| 10. | Timber (new) | 250,000 | Local |
| 11. | Wood products (underway) | 100,000 | Local |
| 12. | Wood products/cahune (new) | 150,000 | Local |
| 13. | Vegetables (new) | 250,000 | Local |
| 14. | Casava/plantains export " | 2,000,000 | Mostly outside? |
| 15. | Agricultural services " | 200,0000 | Outside/local |

| | | |
|---|---|---|
| 16. Tropical Fruit (underway) | 150,000 | Local |
| 17. Cashews (new) | 7,000,000 | Outside-CDC? |
| 18. Canning Foods (new) | 50,000 | Local |
| 19. Tropical Fruit (underway) | 100,000 | Local |
| 20. Aggregate Production (new) | 100,000 | Local |
| 21. Development of Free Trade Zone (new) | 5,000,000 | Outside/local |

Analysis of OED Records

Finally, the development concessions granted to businesses by the GOB (Table 3) give preliminary indications of business activities for which credit will be needed. Following is a list of the concessions granted in 1985, 1986 and 1987. The list has been pruned of those individuals/companies which appeared in BEIPU or CBDF records.

Table 3

RECENT DEVELOPMENT CONCESSIONS (OED)

| Type of Investment | Total Financing Needed | Likely Source (Local-outside) |
|---|---|---|
| 1. Shipping and technical services to the Banana industry (new) | $ 350,000 | Outside? |
| 2. Flour milling (expansion) | 2,000,000 | Outside/local |
| 3. Veneer production (new) | 1,000,000 | Outside/local |
| 4. Vegetables for export " | 280,000 | Local |
| 5. Matches (expansion) | 305,000 | Local |
| 6. Wood Products (new) | 120,000 | Local |
| 7. Cocoa production/ processing (new) | 1,025,000 | Outside (?WB?) |
| 8. Hotel (expansion) | 267,500 | Local |
| 9. Garment manufacture (new) | 456,000 | Local |
| 10. Jaggery (an unrefined sugar) production (new) | 112,500 | Local |
| 11. Timber extraction/ processing (underway) | 1,350,000 | Outside/local |
| 12. Vegetables for export (new) | 1,070,000 | Outside/local |
| 13. Manufacture/eyeglass lenses (new) | 150,000 | Local |
| 14. Vegetables for export (underway) | 1,050,000 | Outside/local |
| 15. Machined parts for export (new) | 188,000 | Local |
| 16. Shrimp farming (new) | 7,500,000 | Mostly outside |
| 17. Banana farm | 1,625,000 | Outside |
| 18. Cacao production | 1,850,000 | Outside |
| 19. Tourist resort | 2,175,000 | Mostly outside |

Combined Analysis of Above Records

Table 4 combines the current projects[4/] shown in Tables 1-3 by industry and gives an estimate of how much credit is currently required from local sources. The smaller projects, $100,000-500,000, will most likely require 100% local credit. The bigger projects, because of their size and complexity, will rely mostly on outside sources of credit providing larger-scale financing. Nonetheless, certain of their medium-term investment requirements may be met locally, as in the case of Caribe Farms' $375,000 loan request to the CBDF (see Table 1).

Table 4

| | Estimated Current Demand for Credit from Local Sources ($000s) |
|---|---|
| Tourism (hotels) | $ 2,750 |
| Agriculture (principally row crops) | 4,995 |
| Shrimp Farming | 1,900 |
| Forestry/Wood Products | 2,475 |
| Garments | 645 |
| Food Processing | 50 |
| Other | 1,495 |
| Total | $14,310 |

Of the $2,475,000 amount for forestry/wood products, $1,250,000 is for proposed veneer (two) and timbering (one) projects which are still very much in the future. The remainder is for smaller wood products manufacturing projects (eight).

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4/Those in Table 1 which have already been approved, and for which funds have been disbursed, as well as those already funded from other sources are not included in this Table.

## V. CONCLUSION

The main sectors of large-scale demand for medium- and long-term credit are tourism and agriculture. Demand for credit in tourism will come mainly from the need to upgrade and renovate hotels, expand existing hotels and build new ones. Activities ancillary to hotel construction, i.e., restaurants, ground transportation and sports activities will further add to credit demand. In total, the tourism sector could account for credit demand of anywhere between $17 and $35 million over the next five years. Demand for credit in the agricultural sector will come principally from the production of row crop vegetables and tropical fruits for export. BABCO farmers and large commercial operations could account for a total demand of $28-$30 million.

Deep sea fishing, if it becomes a reality, could account for $3-$5 million in credit needs. Demand for credit in lumber and wood products is hard to estimate, as the major areas of opportunity for the sector are not yet precisely defined; examination of investment proposals from BEIPU and OED show approximately $2.5 million in needed credit, with half for veneer and timber projects, and half for eight small wood product manufacturers. Shrimp farming is difficult to assess because it has had no success to date and is a highly risky industry. Should one or two current investors prove successful in their first commercial production cycle, demand for credit could amount to $5 million (the cost for two farms to get to the 500-acre size to support a hatchery and a processing plant).

Garments and food processing have very small potential at this point. The garment industry would probably be helped considerably by the creation of the proposed free-trade zone at Santa Elena, Corozal District. Within the food processing industry, credit demand in the meat and meat products subsector would expand should the cattle supply constraint be addressed.

All in all, demand for medium- and long-term credit over the coming five years could be between $50-$75 million from all major sources, provided that the tourism and agriculture sectors grow as predicted.

OUTLINE OF PROSPECTUS/BELIZE INVESTMENT GROUP LIMITED

# OUTLINE OF PROSPECTUS

# BELIZE INVESTMENT GROUP LIMITED

## STATEMENT OF OBJECTIVES

The Belize Investment Group Limited ("The Company") will be organized under the laws of Belize as a public company designed to invest its capital into local, economically and financially sound projects.

The specific objectives pursued by shareholders will be:

(1) to provide an investment vehicle for residents of Belize and Belizian nationals living outside of Belize to invest discretionary funds back into the Belizian economy;

(2) to contribute to the economic development of Belize by directing mobilized capital into economically and financially viable private sector projects; and

(3) to identify, appraise and if appropriate finance individual subprojects that meet the Company's predefined investment criteria.

## TYPE OF INVESTMENTS

The Company will be empowered to make investments in existing or new firms or projects. These investments will be of a semi-permanent type, ie.e will not be of a short-term nature. Investment purpose will normally include the improvement of productive processes in existing enterprises, the increase of existing production capacity, or the start-up of a new activity or enterprise.

Investments made by the Company will be in the form of equity capital, loans, mortgages or debentures. They could include such investments as the purchase of shares as a minority shareholder in a local venture, a medium- to long-term loan or a mix of equity and loan to same, or the outright start-up of a venture wholly-owned by the Company. The Company's founding members will specifically look into the appropriateness of associating with a local bank to open an investment-type "window" in Belize to make available term credit to local entrepreneurs. Negotiations to that effect are currently underway with Atlantic Bank in Belize City. Also, the Company will attempt to leverage its local investments through loan funds to be made available to local firms through USAID's proposed Investment Credit Project (see below).

## INVESTOR PROFILE

Although the Company will take all necessary precautions to invest shareholders' capital wisely, investors in the Company should understand that their investment will carry the high level of risk inherent to the semi-permanent types of investments that will be undertaken. Also, investments in local projects will only be profitable over a fairly extended period of time expected to be in the five-to-seven year range. As such, potential investors should understand that their investment should not be expected to yield substantial dividends before at least five years.

It is therefore important that investors commit themselves to purchasing Company shares only after a careful review and understanding of Company objectives. Funds invested in the Company should be discretionary funds not needed by the investor at any specific date. Similarly, no specific target date should be set by the investor to either receive dividends or to "realize" the initial investment through either transfer or sale of his/her shares. It is not in that respect anticipated that any market for the purchase or sale of Company shares will exist in the forseeable future.

## INCORPORATION AND BY-LAWS

Belize Investment Group Limited will be incorporated under the laws of Belize and registered as a non-banking, public company. Registration will occur after the minimum target capital of B.$1,000,000 (one million Belize dollars) has been committed by potential shareholders. Should this target not be achieved within a reasonable time set at October 31, 1987, plans to incorporate the Company will be dropped by its founding members and potential shareholders will be released of any and all of their commitments.

By-laws will be drawn up by a locally-registered lawyer, and approved with a simple majority of votes by the constituting general assembly of shareholders.

## SALE OF SHARES

Shares will be offered for purchase to members of the local business community as well as through the Consortium for Belizian Development to members of the Belizian community in United States. The offer to purchase shares will not be extended to the public at large, but will be restricted to potential investors selected by the founding members as most likely to meet the Company's investment financial and development objectives.

Shares will be offered for sale at par and at a nominal price of B.$1,000 (one thousand dollars of Belize). All shares will be voting shares, each share giving the shareholder one vote at the

Company's yearly general assembly. The Company's founders (the start-up shareholders) will have an option to purchase additional shares, up to the number they initially subscribe for, at par. This option will remain valid for three years from date of incorporation.

## BACKGROUND TO THE AID PROJECT

The initial concept behind the Company was developed as a response to founding members' desire to promote investment and development in Belize as well as to take opportunity of USAID/Belize's intention to make medium- and long-term credit available to local firms. Founding members of the Company have long recognized the need to promote local investment by providing potential investors access to equity and loan funds to leverage their own investment in local ventures.

For its part, USAID/Belize ("AID") is currently in the desingn phase of its Investment Credit Project that would make up to U.S.$3 million of funds available to the private sector in the form of term credit. A demand analysis was undertaken by AID in March/April 1987, demonstrating a large demand for investment credit in the agricultural production sector (particularly for winter vegetables and tropical fruits) and in tourism (remodeling, expansion and construction of hotels), with additional demand in sectors such as fishing, shrimping, shrimp farming, and possibly forest products, livestock and food processing. Although the quantification of total demand is a matter of speculation, it is AID's conviction that credit needs related to bona fide projects promoted by capable and reputable entrepreneurs substantially exceeds any amount of credit that AID, or for that matter the World Bank and other international organizations, is likely to make available to Belize over the coming five years.

### Institutional Framework for the AID Project

AID has undertaken in the course of preproject design a review of the various potential institutional setups for the channeling of funds to subborrowers. At this stage, none of these options offers an acceptable conduit for AID funds. Local commercial banks have not shown much interest in using AID's Commercial Bank Discount Fund, and there is little prospect for a change in attitude on their part in the forseeable future. The Development Finance Corporation (DFC), the only local institution to provide significant amounts of term credit to the private sector, is marred by serious problems related to the quality of its portfolio, and AID will not consider using the DFC as a channel for funds at least until it has been evaluated as well as restructured under the auspices of the Caribbean Development Bank and/or the World Bank.

In the absence of an acceptable institutional setup, AID is

thus left with no option but to postpone the project for the time being, unless an agreement can be reached with an existing financial institution such as Atlantic Bank or the Belize Bank for Commerce and Industry to establish a unit that would provide AID with all guarantees with respect to the new unit's capacity to manage project funds and undertake the necessary project analyses. In order to take opportunity of the new perspectives offered by the AID project, negotiations are currently underway by the Company's founding members aiming at establisahing such a unit, either within an existing bank, or as an affiliate of a bank in which the Company would participate in.

Should such a unit be approved by AID as the implementing institution for the project, it would gain access to up to U.S.$3 million of AID loan funds over the coming three years to refinance up to possibly 75 percent of the term loans extended to local entrepreneurs. Additionally, it would have access to the technical assistance component of the project, under which technical expertise contracted by AID would be available on a full-time basis in areas such as project identification and promotion, project analysis and completion of feasibility studies, loan monitoring and portfolio management. It is anticipated that this technical assistance will be available throughout the three-year life of the AID project.

Conditions of the AID Loan

To be eligible for refinancing, subloans will have to: (1) be for investment purposes, i.e. for the acquisition, development or expansion of productive or income-generating capacity; and (2) offer the potential to generate foreign exchange earnings for Belize. However, flexibility will be shown in the application of these subloan criteria. For instance, a project designed to produce for the local market could still qualify under the Project if it offered clear economic benefits to the country such as creation of new jobs or substitution of imports (since Belize's economy is decidedly export-oriented, it is still more than likely that the vast majority of projects will present a strong export-earning potential). Also, accomodations will be made to the application of the first eligibility criteria, allowing subloans to include a working capital component if project success hinges on availability of the latter (the entrepreneur will normally be requested to finance at least 20-30 percent of total project cost). It should be understood however that no subloans using AID funds would be made to projects or enterprises in which a Company shareholder would be an investor.

Subloans will normally carry terms of up to seven years, although terms of up to 15 years will be considered for construction or expansion of physical facilities. Grace periods of up to 2 years (and 4 years for certain tree crops and for construction) will be considered, during which time interest payments will remain due.

However, neither maximum grace period nor maximum terms will be automatic for a particular type of loan, as these will be granted for each individual project on the basis of projected cash flows.

Subloans will be made at market rate conditions, i.e. at interest rates no lower than the Central Bank-established Prime Rate (currently 12 percent). In order to provide sufficient incentive to the proposed unit which would manage the AID project funds as well as to cover its lending risk -- the unit will be allowed a spread of no less than 5 percentage points over its cost of funds.

The option of allowing the Unit to use AID loan funds to invest in the form of equity in individual projects would also be investigated during project design. Although such equity investments would be limited to say 10 percent of the total portfolio, the option may prove attractive where it constitutes the only reasonable method to achieve a favorable mix of equity vs. loan funds in a given project.

Conditions to Participate

Should Atlantic Bank or another financial institution be interested in participating in the AID project, it should be ready to commit itself to the following:

- establish and appropriately staff an investment credit window or affiliate;
- maintain a technical capability to manage on a financially-viable basis a portfolio of term loans to the local private sector;
- make available to the program in association with the Company a capital contribution of up to U.S.$1 million as its participation in the financing of subprojects (this will in effect represent 25 percent of total project funding of U.S.$4 million).

## FINANCIAL PROJECTIONS

As already pointed out, the Company's objective will be to invest its capital funds into enterprises or projects that are economically and financially sound. Investment selection will take place after a careful evaluation by competent and experienced professionals, and final approval of individual investments will take into account usually-accepted criteria such as management capacity, credit history of the borrower, available collateral and/or guarantees, etc.

Option #1: Investment in Affiliate of Financial Institution

(need ten-year projected income statements and balance sheets based on: interest rate on subloans of 13 percent, cost of AID funds of 8 percent, bad debt rate of 1 percent, administrative costs such as salaries for a manager, a project analyst and an admin. assistant, office rental, and normal operating operating expenses. Disbursement of AID funds: probably only .5 million on year 1, 1 million in year 2, and 1.5 million in year 3)

Option #2: Direct Investment in Project Financing

(need similar projections which would be based on the prefered mix of equity investments and loans; average term of loans may be 5 years; no dividends distributed during first 5 years - same applies to Option #1)

# POSITION PAPER TO GOVERNMENT OF BELIZE ON CREDIT MARKET STRATEGY

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A. I. D. MISSION TO BELIZE
EMBASSY OF THE UNITED STATES OF AMERICA
BELIZE CITY, BELIZE, CENTRAL AMERICA

April 2, 1987

Sir Henry Cain
Financial Secretary
Ministry of Finance
Belmopan, Belize

Reference: USAID Credit Market Strategy in Belize

Dear Sir Henry,

At a time when USAID/Belize is assessing its strategy in credit markets in Belize, we wish to outline a number of issues and findings which we hope will constitute the starting point of an ongoing dialogue between our office and your Government with respect to future A.I.D. assistance in this area.

Background

USAID's interest and involvement in credit programs in Belize is not new. As a case in point, our office participated in the launching in 1983 of the Commercial Bank Discount Fund, which was to make available a total of US$5 million in medium- and long-term credit to local businesses through a discount window established at the Central Bank. In addition to their access to this window, participating commercial banks also would benefit under certain conditions from Central Bank guarantees on their subloans for up to 75 percent of total exposure.

Unfortunately, usage of this Discount Fund has been, to say the least, disappointing, as only US$1.8 million has been drawn upon or committed by the banks over the past three years out of the original US$5 million allocation. The main reason for this disappointing performance appears to be the continued reluctance of local commercial banks to involve themselves in term lending activities, an aversion which was itself linked to a number of factors such as lack of appropriate lending power granted by their head offices overseas, absence of a local

project review and analysis capability, and unpractically high requirements with respect to collateral as well as share capital required from the promoter out of his own funds.

We have as a result of this situation been considering alternative options for the future. As a first step, our office has, with the assistance of outside consultants, taken a look at the actual demand for term credit from Belizean investors, as well as reviewed alternative mechanisms for the channeling of A.I.D. funds to bona fide local projects.

Demand for Term Credit

Based on an industry-by-industry review of actual and potential credit needs, our analysis has concluded that there is a large unmet demand for medium- and long-term credit in Belize, and that this credit constraint is hampering local investment and growth. The principle sectors identified by A.I.D. as priority ones in terms of both demand and potential benefits for the Belizean economy are agricultural production (winter vegetables, tropical fruits) undertaken by commercially viable farms on one hand, and hotel construction and expansion and other tourism-related businesses on the other, with demand also being strong in fishing and shrimp production, and possibly shrimp farming, forest products and livestock.

Although the quantification of the actual demand for term credit is a matter of speculation, suffice it to say that the potential demand over the coming years is estimated by A.I.D. to be substantially higher than what A.I.D., or for that matter the World Bank and other international organizations, are likely to make available to the country over the coming five years.

Review of Alternative Institutional Channels

USAID has considered a number of possible institutional arrangements in the course of defining its long-term strategy in credit markets. Three options were specifically looked at, namely: (1) using the Development Finance Corporation to channel A.I.D. credit funds to eligible subborrowers, (2) support the creation of a private finance company, to be started up and capitalized by the A.I.D.-sponsored Belize Investment Group; and (3) encourage the yet-to-be-established Belize Bank for Commerce and Industry (BBCI) to open an investment credit "window".

Unfortunately, each one of these three core options was found to present limitations strong enough so as to prevent USAID to commit itself exclusively to any one of them at this stage:

(a) The Development Finance Corporation (DFC) has been marred over the years by skewed credit allocation policies, at least in part linked to political demands placed on the institution. Although this is reportedly no longer a problem, the DFC is still hampered today by a high percentage of non-performing loans, estimated to be anywhere between 10 and 50 percent of the portfolio, but more likely to be at least 40 percent (the DFC has promised its main donor, the Caribbean Development Bank, as well as IBRD that an analysis of delinquent loans would be available shortly). From discussions held with both DFC and outside observers, we are also led to believe that the institution is still burdened by a slow loan review process, a capacity to identify and monitor projects which is dubious at best, and general bureaucratic inefficiencies. In any case, we believe it would not be wise for USAID/Belize to commit itself to working with the DFC at least before the institution is restructured and strengthened under CDB and IBRD (and possibly A.I.D.) auspices.

(b) The Belize Investment Group (BIG) was set up by a group of local businesspeople with the encouragement and active involvement of USAID with the objective of raising seed capital for development projects. The initial idea was to mobilize around US$1 million both in Belize and through the Consortium for Belizean Development in the U.S. as start-up capital for a new private finance company. However, the design team found three major constraints attached to the channeling of A.I.D. funds through a BIG-sponsored private finance company: (1) BIG's ability and prospects to raise the required US$1 million is uncertain; (2) group members are still in the process of defining their long-term objectives and strategy, and there is still within the group a general lack of understanding of the prerequisites of starting a new financial institution; and (3) it is estimated that start-up time for such a new institution would be over one year, during which time essentially no A.I.D. credit funds would be available to the local economy.

(c) The Belize Bank for Commerce and Industry (BBCI) could also offer excellent potential as channel for A.I.D. funds, insofar as this option would make use of an existing financial institution, now owned for up to 75 percent by development-minded Mr. Michael Ashcroft. However, the possible interest of BBCI in opening up its own investment credit window is still a matter of speculation at this stage, since USAID will not get a chance to discuss the issue with BBCI's new ownership group at least until May 1987 (provided the BBCI does actually open for business at that time).

Alternative Courses of Action for A.I.D.

Although USAID/Belize was, and still is, intent on providing funds for an investment credit project, it is not, due to the absence of a feasible institutional mechanism, in a position to commit itself to such a project under present conditions. There are still, however, a number of steps that our office wishes to pursue in the coming months in preparation for possible future initiatives in that area, including:

- o conducting negotiations with the Belize Bank for Commerce and Industry, and possibly Atlantic Bank, with respect to their possible interest in developing an in-house capacity to analyze and monitor projects presented to them for financing;
- o providing continuing support and encouragement to the Belize Investment Group, which could include technical assistance to the group for the development of a full-fledged business plan;
- o holding preparatory meetings with the DFC in anticipation for a comprehensive evaluation of that institution; and
- o a continuing dialogue with the World Bank and possibly other donors for an improved coordination of our individual efforts.

Role of the Central Bank

Should an appropriate institutional mechanism be identified by USAID, we believe that the funds should be ideally managed by a separate unit which would discount eligible subloans made by

the lending institutions, as well as make available technical expertise as needed to participating financial institutions in critical areas such as project identification and promotion, economic and financial feasibility analyses, project monitoring and portfolio management (such technical assistance would be financed under the project in the form of a grant).

We believe this Investment Credit Unit should ideally be based at the Central Bank, which would allow the latter to coordinate and monitor the lending activities by more than one financial intermediary under the A.I.D. project. Moreover, such a set-up would allow the Government to be the borrower of A.I.D. funds, in turn allowing the A.I.D. loan to carry substantially lower rates of interest than in the case of a direct loan to a private sector institution. Lastly, the unit could conceivably play a coordinating role for A.I.D. and other credit funds to be provided by the World Bank or other international organizations.

We have reviewed this concept with the Central Bank. However, the Governor of the Central Bank would at this stage be reluctant to have such a unit housed there, as this would in his view "cloud" the true role of the Central Bank, which he sees as oversight of financial markets with no direct involvement in credit activities.

We believe it is important at this stage to have an opportunity to review these various issues with you and your Government. We would in particular be eager to share our ideas with respect to USAID's possible contribution to the strengthening of local financial markets, which we see as vital to the promotion of local investment in key economic sectors.

Sincerely,

Neboysha R. Brashich
A.I.D. Representative

## ANNEX A

## DEMAND FOR CREDIT ANALYSIS

### I. INTRODUCTION

This analysis of the potential demand for medium- and long-term credit in Belize was undertaken as part of the predesign of USAID/Belize's proposed Investment Credit Project. Since the project is to address the lack of access by private sector investors to medium- and long-term credit, it was essential to determine the magnitude of the unmet credit demand as well as to identify the sectors that offered strongest prospects for viable investment.

### II. METHODOLOGY

An analysis of demand based on a sampling of firms by key economic sectors was not feasible in Belize for two basic reasons: (1) because of the small size of the economy, there are too few firms to allow for any meaningful sampling in most sectors; and (2) no industrial census has been undertaken, and thus no valid basis is available for extrapolation from a given sample to an entire sector.

The team used a two-step approach to estimate the demand for medium- and long-term credit. First, forecasts of future demand were prepared for major industries on the basis of data collected from a number of sources. Second, the reasonableness of these forecasts was verified by an examination of current demand for credit generated from the Commercial Bank Discount Fund (CBDF), BEIPU and OED data sources.

Industry forecasts were established through a combination of various sources of data. First, and most important, the team conducted systematic interviews of key individuals and institutions, including representatives of the local business community, the commercial banks, other financial institutions, the Central Bank and other pertinent government organizations. Second, it worked with the investment proposals submitted to the Commercial Bank Discount Fund (USAID/Belize Project No. 505-0305) for funding consideration. These proposals assumably provide a strong indication of type of credit required, and also represent a significant portion of the actual demand for credit for viable business undertakings[1] that exists in

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[1] whether financed or not by the commercial banks. See Section IV.2 for credit availability constraints imposed by commercial banks in Belize.

Belize today. Third, 1985, 1986 and 1987 (to date) development concessions granted by the Office of Economic Development provided useful data on new projects promoted by mostly foreign, but also local, investors. Fourth, the Belize Agribusiness Company (BABCO - USAID/Belize Project No. 505-0008) provided demand for credit estimates for the next five years for vegetables, orchard crops and oilseed operations in the north of the country (these estimates, coupled with those of individual investors in winter vegetable operations, provided a sense of what credit requirements will be in Belize's most important agricultural undertaking - winter vegetables/tropical fruits for the US). Finally, the team analyzed information available at BEIPU on investor interest and intentions since 1983 (PDAP) to date (USAID/Belize Project No. 505-0027) by sector or business activity. Once this accumulated data collected, only seriously-intentioned, viable projects were considered in estimating the actual "pool" of credit demand.

It should be noted that some of Belize's "industries" have not yet started or are just starting. One, deep sea fishing, is probably five years away from start-up. Certain are not yet in commercial operation. Shrimp farming, for example, is brand new to Belize, has had some false starts, and the scope of future operations now depends on the success of two operators in the coming six months. Currently, the garment sector is constituted by only one company, which is a candidate for locally furnished credit. Another industry, tourism, is presently vibrant with optimism, brought on by the 1984 change in government, a successful film made in Belize in 1986, and recent, extremely favorable publicity given Belize on US television. A conservative approach was thus taken in estimating credit demand in this sector.

## III. CREDIT DEMAND ESTIMATES ESTIMATES

Following are estimates of the demand for medium- and long-term credit for those industries where sufficient data and industry norms allow for reasonable estimates. Also analyzed is demand for short term credit other than overdraft facilities, notably 90 - 180 day bridging and pre-export financing. Tourism and agriculture/agroprocessing will account for the bulk of the demand, and are the business activities requiring credit the soonest. Expansion of tourist facilities is already getting underway. 1988/89 will be BABCO's first year of full operations directly involving the farmers of the north, and credit needs will start to appear then.

### 1. Tourism

As noted above, the tourism sector is vibrant with expectations of rapid growth in number of visitors to Belize.

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These expectations are fueled by (1) recent favorable publicity given Belize by U.S. and foreign television networks, as well as in sporting magazines, (2) work of the Belize tourist industry in promoting itself selectively in the U.S., the Far East and Europe, (3) a 1987 European travel and tourism show in Berlin at which Belize received good publicity, and (4) the production and subsequent success of the film Mosquito Coast, filmed in Belize in 1986. From 1980 to 1986, the number of tourists rose from about 20,000 to 40,000 according to industry estimates, and very rough estimates of tourist receipts indicated they may have more than doubled from $7 million to $17.8 million.

Tourist expenditures are estimated as follows:

| No. of tourists | x | Average length of stay | = | Bed nights |
|---|---|---|---|---|
| 40,000 | x | 5.5 nights | = | 220,000 |

| | |
|---|---|
| Average expenditures | |
| . Hotel | $45/night |
| . Breakfast | 5 |
| . One other meal | 15 |
| Total Hotel | $65 |
| Ancillary purchases, e.g., ground transportation, fishing, scuba, shopping, etc.) at 25% of total hotel | $16 |
| Total Hotel & Ancillary | $81 x 220,000 bed nights = |
| Total Tourist Expenditures | $17,820,000 |

The expansion in tourism will come in two areas. The first entails the barrier reef and cays. Belize has the second longest barrier reef in the world (first is Australia's Great Barrier Reef), offering some of the best scuba diving and snorkeling in the Caribbean - for both coral and aquatic life. The reef, both inside and out, offers splendid sport and casual fishing. Other water sports are increasingly available.

The second area is the interior of Belize - combining adventure, archaeological ruins (Mayan) and naturalists' interests - the flora and fauna of the jungle. What started as a "backpacker" clientele is "graduating" into a larger, better heeled group of tourists - including members of U.S. Audubon societies, the Smithsonian, etc. Hoteliers and travel agents see combination packages of diving/inland tours as having very high potential.

The most important constraint to growth in this sector is the current lack of infrastructure to support a rapid expansion

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in the number of tourists. First, the country's main port of entry, Belize City has approximately 100 hotel rooms[2/], running at 45-65% occupancy annually, but at about 80% occupancy during the December-April high season. A sudden surge in tourist interest would swamp Belize City. Airport facilities in Belize City are inadequate and the international airport's runway needs to be lengthened. Good restaurants are lacking, and in general Belize City is shabby.

Infrastructural constraints extend to the rest of the country, where they in fact become more severe. They include adequacy of potable water, electricity supply, roads (particularly in the South), rental vehicle fleet, ground operators, garbage collection and disposal, sport fishing infrastructure, hotel management, hotel staff training, air links from the south to connect with international flights, and health facilities.

The second principal constraint is the quality of the hotels. In general, Belize's hotels rank as second class. There are no first class hotels other than an extremely expensive six room hotel in Ambergris Caye (this shortcoming will be somewhat alleviated if the 80-120 room Camino Real hotel becomes a reality in Belize City two years from now).

Apart from San Pedro on Ambergris Caye, most of the cays of the barrier reef with tourist potential are underdeveloped. Easy access to the cays, coupled with reliable infrastructure, is needed. The interior of Belize suffers from the same conditions, with roughly the same needs.

Demand for credit for tourism and tourism-related activities has represented a substantial share of the Commercial Bank Discount Fund's activity. Four approved projects have accounted for $1,125,000, and another $1,162,500 worth of projects (five) or add-ons to already approved projects (one) are in the evaluation stage. The number of hotel rooms, a key indicator of the demand for credit, rose from 1377 rooms in 1982 to 1523 in 1986, a 2.7 percent annual increase.

It is not unreasonable to expect a 10-15% annual increase in the number of tourists visiting Belize in the coming five years. Growth in hotel accommodations is likely to proceed in two stages: first, upgrading and renovation of existing rooms with some expansion; second, expansion, as growth in tourism is seen as a real, continuing trend. Of the 1500 plus existing rooms in

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[2/] If a fully loaded 727 or 767 aircraft were to break down at the Belize International Airport, hotels in Belize City would only be able to house one-half the stranded passengers.

Belize, only about 500 would meet (marginally) international tourism standards, and most require upgrading. Over the next two-three years, expansion of existing hotels would add approximately 120-150 rooms to the existing "stock". This increase excludes the 80/120-room first-class hotel planned for Belize City. Once that hotel is built and operative (1989), tourist industry officials feel that demand for hotel rooms in Belize City will be met for the following five years (1989-1994).

The estimate of the demand for credit also depends on the estimated cost of building a new room. Apart from the new first-class hotel, the bulk of the planned activity is upgrading/expansion of existing facilities. Upgrading an existing room, with the usual amenities, is estimated at $12,000 per room. The cost of building an additional room varies according to standards the hotelier is trying to achieve, the cost of labor, materials and transportation (especially important for the cays), and the degree to which the owner does the work himself or contracts it out. Thus, an additional room can vary in cost from $15,000 to $60,000. Since some of the expansion is forecast to come from the smaller (10-15 room) hotels, it is likely that their owners will do some of the work themselves. To allow for this alternative and also to take into account the higher expansion costs of hotel facilities on the cays and inland, an average cost of $40,000-$45,000 per room was applied. It was also assumed that the hotel owner will be on average able to put up 25% of the new investment. Following are demand for credit estimates for upgrading/expansion of Belize's hotels.

1987-1990

| | | Total Investment ($000s) | Percent x Loaned | Credit Needs ($000s) |
|---|---|---|---|---|
| Upgrading: | | | | |
| 500 rooms @ $12,000/room | = | $ 6,000 | x75 = | $4,500 |
| Expansion: | | | | |
| 125-150 rooms @ $40,000/ | = | 5,000/ | x75 = | $3,750/ |
| $45,000/rm. | | 6,700 | x75 = | $5,060 |
| Total Upgrading and Expansion: | | 11,000/ | x75 = | $8,250/ |
| | | 12,750 | x75 = | $9,560 |

If tourism continues to expand as per most favorable estimates, new hotels in both the interior and the cays should materialize over the next five years. Built for a more affluent clientele (e.g., Audubon, Smithsonian members to patronize lodges/hotels in the interior, and those interested in sport fishing, scuba diving, or simply nice accommodations in the cays), new accommodations could run as high as 300 rooms at a cost of $100,000 per room. Each new hotel/lodge in the interior might have 25-35 rooms, while hotels in the cays

would be on the order of 50-60 rooms. Based on a range of potential number of rooms and costs, new hotels could account for the following investment and demand for credit:

| | | | |
|---|---|---|---|
| Cost/room | $60,000 | / | $100,000 |
| Rooms | x150 | / | x300 |
| Total Investment | $9,000,000 | / | $30,000,000 |
| | x.75 | | x.75 |
| Total Demand for Credit | $6,250,000 | / | $22,500,000 |

How much of this potential demand for credit would (could) be met from local banks or from donor-funded sources is open to question at this point. Aside from the pace of tourism development in Belize, the availability/cost of funds through non-project sources will thus be a determining factor in the level of overall unmet credit demand.

An important adjunct to hotel expansion is growth in restaurant capacity. Belize City is sadly lacking in availability of decent restaurants. One new restaurant has opened in 1987. With the projected growth in hotel rooms, one can consider the addition of one more restaurant in Belize City in 1987, two each in 1988 and 1989, and one each in 1990 and 1991. Starting in 1988, the rest of the country's cities and cays could accommodate six more restaurants yearly.

Equipped properly, a restaurant costs approximately $4,000/square meter to build. Assuming a restaurant that will seat 30 people, allowing 1.5 sq. meters/person, total cost would be $180,000. Since restaurants are viewed as fairly risky undetakings, the investor will probably have to put up at least 50% of the investment. Thus, demand for credit arising out of new restaurants is estimated as follows:

| Year | New Restaurants | Average Cost ($000s) | Total Cost ($000s) | x 50% = | Demand for Credit |
|---|---|---|---|---|---|
| 1987 | 1 | $180 | $ 180 | | $ 90 |
| 1988 | 8 | 189 | 1,512 | | 756 |
| 1989 | 8 | 198 | 1,584 | | 792 |
| 1990 | 7 | 208 | 1,456 | | 728 |
| 1991 | 7 | 219 | 1,533 | | 767 |
| Total | 31 | | $6,265 | | $3,133 |

Other ancillary, but important investment areas for Belize's tourism are transportation requirements, including tours, guides, vehicles, boats and a reliable air link between international flights from Belize City and the south, and sports infrastructure and equipment, e.g., boats, boat rental, fishing and fishing equipment, dive shops, water sport equipment, tennis courts and equestrian equipment.

SV

An example of an ancillary requirement which would generate demand for credit is ground transportation. The projected number of tourists to be transferred for the airport to hotels and carried inland on tours would require approximately 70 vehicles (6 seats each) at $26,000/vehicle CIF Belize City duty paid. The average life of such a vehicle in Belize is three and one-half years because of road conditions. Operating and maintenance costs are high. Assuming the owner will finance only 30 percent of total investment from outsied sources, demand for credit for ground transportation would be the followqing:

| No. of Vehicles | Cost/Vehicle | Total Cost | x30% | = Demand for Credit |
|---|---|---|---|---|
| 70 | $26,000 | $1,820,000 | | $546,000 |

2. Agriculture.

The second principal activity which will require credit is non-traditional agriculture, including winter vegetables, orchard and oil seed crops. Winter vegetables (row crops such as tomatoes, cucumbers, peppers, squash, etc.) and tropical fruits destined for the U.S. market appear to have a high potential for the foreseeable future. There appears to be a "window" in the winter during which time Mexico cannot supply certain vegetables because of cold weather (Mexico exports $1 billion of vegetables per year to the U.S.), and Belize appears to be well positioned to fill this gap. Reportedly, U.S. demand for row crops is growing at 5% per year.

In Belize, the principal actors in this endeavor are a small number of large individual investors/farmers who are just starting up on one hand, and BABCO, the USAID-funded project to introduce and commercialize alternative crops in the north on the other.

Future medium- and long-term credit needs are the greatest in the BABCO project, since it is aimed at a large number of small farmers (the large commercial operator, benefitting from economies of scale and own sources of financing, will have relatively lesser credit requirements than BABCO). BABCO estimates credit needs over the four-year period 1987-1991 as follows, based on growth in acreage cultivated from 1,055 acres in 1988/89 to 4,500 acres in 1990/91.

PROJECTED BABCO CREDIT REQUIREMENTS ($000's)

| Term of Credit | 1987/88 | 1988/89 | 1989/90 | 1990/91 |
|---|---|---|---|---|
| Short | R&D | $750 | $1,875 | $3,000 |
| Medium | R&D | 2,787 | 4,896 | 5,327 |
| Long | R&D | 660 | 820 | 2,570 |
| Total | R&D | 4,197 | 7,591 | 10,897 |

Short-term credit represent essentially working capital for agricultural inputs destined for vegetables and oilseeds. Medium-term credit covers agricultural equipment including tractors, irrigation equipment and water systems. Long-term credit needs involve packing plants, hydrocoolers, a top icing plant, a juice extraction plant and an oilseed mill.

It is more difficult to estimate local credit needs for large individual investors/farmers just starting up winter vegetables and tropical fruit production for export. . Of the four principal investors (excluding banana and citrus growers) in Belize, one is and will likely remain entirely self- and/or foreign-financed. The current credit needs of the remaining three are principally short-term bridging or pre-export financing credit. One requires $1,500,000 in 90-120 day credit; another a $3,000,000 120-day line of credit. It is not known how much the fourth investor/farmer will require. To date, one of the four has applied to the Commercial Bank Discount Fund for a 2-3 year loan of $375,000 for a packing shed and cold storage facilities.

The minimum requirements for an individual row-crop commercial type operation is 150-250 acres of production to support (feed) a packing house and cooler. Equipment, building and set-up for the packing house/cooling facility will run an estimated $300,000. An additional $200,000 would allow the investor to buy and clear 200-250 acres of land and partially finance his other pre-harvest activities. With the land, buildings and equipment available as collateral, an investor could finance the remainder of his pre-harvest working capital needs and possibly half of his harvest credit needs - pickers, boxes and transportation. He may however need an additional $100,000 of short-term credit (another rule of thumb for measuring credit needs of commercial-size row crop operators is that each $1 million of sales requires $250,000 of pre-harvest and harvest financing).

For a 1,000-acre operation, following are estimated medium- and long-term investment/credit requirements.

Investment

| | |
|---|---|
| Land - $50/acre | $ 50,000 |
| Land clearing/preparation - $400/acre | 400,000 |
| Total Investment | $450,000 |

Medium Term

| | |
|---|---|
| Tractors (3) | $100,000 |
| Trailers (4) | 10,000 |
| Sprayers, seeders, etc. | 35,000 |
| Sprinkler Irrigation (including pumps/mainlines) $800/acre | 800,000 |
| Total Medium Term | $945,000 |

Long Term

| | |
|---|---|
| Packing Plant (includ. cooler) (1) | $350,000 |
| Diesel Generating Set | 30,000 |
| Total Long-Term Credit | $380,000 |
| Total Medium and Long-Term Credit | $1,325,000 |

Assuming that the present operations achieve a fair degree of success, one can envisage eight to ten 1,000-acre commercial vegetable growers in five years' time, accounting for $11-13 million in demand for medium- and long-term credit.

3. Other Sectors Requiring Credit.

Following are descriptions of other sectors which can be expected to require credit. Unfortunately, it is not possible to quantify their credit requirements with any degree of accuracy, dut to the lack of readily available information, the small size of the industry (e.g., garments - only one manufacturer requiring local credit), and/or the newness of the industry to Belize, e.g., shrimp farming.

(i) Fishing. Belize's fishing industry is comprised of four active cooperatives, two of which are on relatively sound financial footing. The largest of these, Northern, has 200 members, while the second largest, National, has approximately 100 members.

The fishing industry is looking beyond the barrier reef to deep-sea fishing. Such a switch would represent a major change, and would entail major infrastructure investments. It would also require a resource survey, since neither the industry nor the Government know how much fish is beyond the reef.

During the interim, joint ventures with Honduran (seven shrimp trawlers) and U.S. companies (one American - lobster, conch and long-line fishing) are starting. Under such joint venture arrangements, the cooperative provides all its services -- boat crew, cleaning, grading, freezing, shipping and marketing, while the foreign boatowner pays the crews, and provides (pays for) licensing, fuel, ice and gear.

Assuming that there are sufficient resources beyond the reef, the industry realizes it will need additional land, buildings and/or building expansions, wharves (to accommodate 45/50-foot vessels), ice-making machinery, and machinery to process, grade and clean the catch. Following is an illustration of what one cooperative feels it will need if it goes into deep sea fishing/shrimp trawling (trawling under joint venture):

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| | |
|---|---|
| . Expansion of existing plant, including a $50-$100,000 shrimp grader | $200,000 |
| . Two refrigerated trucks to move shrimp from deep water port to plant in Belize City | 50,000 |
| . Six 45/50-foot multi-purpose boats equipped for both long-line fishing and lobstering. (no refrigeration; ice used; includes allowance for spare parts/maintenance and repairs) | 1,000,000 |
| . Other potential demand for credit: ice-making machine (per unit) | 150,000 |
| . Wharf - Belize City - $650/linear foot for land purchase and wharf construction (150' wharf) | 100,000 |

(ii) Timber/Lumber. Recently, Belize's annual production of lumber dropped from nine million board-feet to six million, as a result of the loss of mahogany export markets to Brazil - which, for example, undercut Belize by $150/1,000 board-feet on sales to Jamaica (furniture manufacturing).

The characteristics of Belize's supply of primary tropical hardwoods for export, mahogany and rosewood are such that collectively all of Belize's loggers/mills do not produce enough mahogany to interest a large U.S. buyer. There are very few stands of mahogany left, just mainly trees interspersed with many other types of wood. Currently, exports come primarily from small mills selling one, two or three container loads of mahogany and/or rosewood to small users in the U.S.

The domestic market, however, remains firm, even showing growth. Such growth has been spurred, in part, by the DFC's $2,000,000 in housing funds available at 12%, and by USAID's assistance to the Cooperative Housing Foundation. Belize's principal lumber producer states that he has experienced a 300% increase in business over the past seven years, and he feels that demand will remain strong over the next five years - initially due to domestic needs and later to growing international demand.

Other than this one producer, who in 1986 received a $1.5 million loan from OPIC to upgrade his facilities, recent growth in the industry has been modest, comprising of "artisanal" mills requiring $12-25,000 for start-up with a secondhand engine and saw. Over the past three/four years, four of these mills have begun operations. New opportunities (listed below) may exist for the industry, but until they materialize it will not be possible to estimate medium- and long-term credit needs

(Note: BEIPU and OED have eleven possilbe investments in forestry/wood production on file; see Section IV. on proposed investments).

POSSIBLE OPPORTUNITIES

- Two veneer operations are being considered by foreign investors. All the veneer would be for export.
- The industry needs a kiln to be able to ship dried products to the U.S. and elsewhere.
- A "small-dimension" mill with precision sawing and planers - to make standardized furniture parts for U.S. furniture manufacturers.
- The secondary tropical hardwood, Santa Maria, is a possible substitute for Oak, whose price continues to rise in the U.S.
- Small sawmills providing special, high-value, semi-finished and finished high-quality hardwood products for the U.S. market, e.g., marine grade mahogany plywood.

(iii) Shrimp Farming. Shrimp farming in Belize is in its infancy. Of the current four major projects operating in Belize today, only two are likely to go into production this year. If all goes well, these companies will be harvesting the first-ever sizeable amount of pond-grown shrimp in Belize.

Shrimp farming, even if done "extensively", involves a relatively high capital component, especially when of a scale requiring a hatchery and processing plant (about 500 acres of shrimp ponds). Following is an estimate of one producer's credit needs, and what investment will be necessary when he links up with two other interested producers to justify the installation of a hatchery and processing plant.

| | | |
|---|---|---|
| Early 1987 | Working capital | $80,000 |
| September 1987 | A 6-24 month loan-essentially working capital | 90,000 |
| 1987-89 | Other two producers will need medium-term loans for machinery | 300,000 |
| 1987-89 | Other two producers will need capital funds to go into production (total of 300 acres) | 250,000 |

| | | | |
|---|---|---|---|
| . | 1989 | Hatchery and processing plant; principals put up $500,000 | 1,500,000 |
| . | 1992 | 2/3-year loan - bulldozer, construction equipment | 150,000 |

Favoring shrimp production in Belize is the fact that U.S. demand, which is year-long, is continuing to grow (as are imports), while U.S. natural production (from the sea) is dropping. In 1981, the U.S. produced 600 million pounds of shrimp and imported 250-300 million pounds. In 1986, it produced 400 million lbs. and imported 600 million lbs. That year, Ecuador, the biggest Western hemisphere supplier of farmed shrimp, exported 67 million pounds to the U.S.

Opportunities for Belize may be further enhanced by the earthquake that Ecuador, the hemisphere's largest shrimp farming nation, suffered in February 1987. The shrimp industry expects increased taxes on shrimp in that country, and thus a drop in Ecuadorian shrimp production.

A 500-acre farm, producing 800 pounds/acre 2.5 times/year will produce one million pounds of shrimp. Cost per pound of production ranges from $1.90-2.50 while the FOB Belize City selling price is $3.45-6.10/pound. 80% of all shrimp produced (sea and farm) goes to restaurants. To ensure this market, the shrimp farmer must create a size and a consistent quality required by the restaurant trade.

(iv) Garments. Currently, this is an industry of one, which requires local credit. The two other garment manufacturers are financed from abroad. Two other manufacturers, one of jeans and the other of ladies garments, went out of business because of their inability to obtain working capital.

Initially having lost a $1.2 million order because of the commercial banks' refusal to handle an irrevocable letter of credit for the purchase of raw materials, the present manufacturer went into an "807" operation whereunder the overseas buyer provides the raw material and the Belizean manufacturer does the assembly work. This manufacturer has the following range of credit needs:

- Some pre-export credit financing to secure raw materials;
- The ability to discount his receivables, since buyers want terms from 30 to 60 days;
- A revolving 120-day line of credit for $950,000 to handle a firm $2.8 million order. With this credit he could double his staff and start a second shift--all within the existing facilities;

| | |
|---|---|
| Future expansion: | |
| --a second building | $125,000 |
| --equipment[3/] | 200,000 |

(v) Food Processing. The food processing industry in Belize, other than for beer and soft drinks, is very small and rudimentary. Products made locally are jams, jellies, pasta, pepper sauces, peanut butter, plaintain chips, and meat products. Two small dairies provide milk, and there is limited yogurt production. To point up the small size of the domestic market and the artisanal nature of the industry, the pasta company works only three days per week. Melinda's, a supplier of jams, jellies and pepper sauces, currently is operating out of the owner's kitchen, and supplies the entire Belizean market from that kitchen. Members of the food processing industry express an intention to produce tomato products (catsup, sauce, paste), and powdered and condensed milk.

Products with export potential are pepper sauces (U.S.), fresh meat and meat products (CARICOM countries), and possibly jams/jellies (U.S., CARICOM). Melinda's has just started to export pepper sauce to the U.S. and it appears that there could be a larger market for this product. Citrus concentrate exports to the U.S. are not discussed here, since citrus is an activity which AID cannot assist. Mango concentrate (exports) falls under the vegetables/tropical fruits discussion.

The problems this industry faces are the minuscule size of the domestic market, the need (and difficulty) to find niches in export markets, the very high cost of buying the small quantities of materials (e.g., containers, labels) necessary for the business, high cost of transportation out of Belize, and the high cost of services in Belize -- electricity, transportation, etc (it should be noted that the largest local jam, jelly and pepper sauce manufacturer is in increasingly serious financial difficulties and is in danger of closing). To this should be added supply problems: Belize Meats, the largest of three meat products' producers (and also the country's only slaughter house), cannot get sufficient cattle to process into meat products for sale both domestically and to CARICOM. This is unfortunate for Belize, since in 1985 imports of meat and meat products totalled over $3.2 million.

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[3/] The manufacturer would prefer to lease sewing machines if option were available, as a means of reducing capital outlay and increasing the number of manufacturing choices open to him.

Taking into account the above, following are the credit requirements of interviewed businesses:

1. Melinda's - producer of jams, jellies and pepper sauce.
   - Building and bottling equipment for pepper sauce and possibly jams and jellies. $125,000

2. Running W Farms - meat producer
   - Equipment for heat/vacuum sealed retort pouches 15,000
   - Working capital to buy retort pouches (15 cents each in small quantities - producer does not know price break points) unknown

(vi) Livestock. Estimates of the size of Belize's cattle herd vary from 35,000-50,000 depending on the source. As noted above, Belize Meats Ltd., while claiming to be the only USDA approved slaughter house in the Caribbean, cannot get sufficient animal throughput to even begin to take opportunity of the growing market in the larger CARICOM countries for fresh meat and meat products. Reportedly, 4,000 head of cattle were exported to Martinique and 3,000 head to Mexico in 1984/85. The concensus is that Belize's livestock industry is in sorry shape.

Discussions with the President of the Belize Livestock Producers Association pointed up the sole credit need of the livestock industry at this time -- production credit to allow livestock producers to get into a feeder cattle program. He identified the need for a loan program of $3,000 (minimum) to $100,000 (maximum) to individual producers, with a maximum term of 18 months. Most of the loans would be on the small side. As such, these credit requirements would not fall within the scope of this project. Should a feeder program be successful, the implications for larger-scale cattle operations, meat processing, and export activities are obvious for this project.

## IV. REVIEW OF CURRENT INVESTMENT INTENTIONS

The reasonableness of the above demand for credit estimates per industry was then verified by examining various sources of data on proposed investments. Because this approach only considers those serious investment intentions which are currently under consideration, this actual demand for medium- and long-term credit will necessarily be much lower than in the industry forecast for credit over the next five years. The investment intentions shown in the following set of tables indicate that even existing demand for medium- and long-term credit is significant.

Analysis of CBDF Records

Table 1 shows all the viable projects which have been considered for funding under the Commercial Bank Discount Fund. The earliest of these projects is dated July 1985, and the most recent was received by the CBDF on March 3, 1987. All the projects were either approved, are being negotiated, or have been seriously considered by the CBDF. Projects in this last category were either funded otherwise, or were not funded, but are considered sound projects.

Loan terms and conditions considered ranged from three years at 14% in the case of two loans for meat processors to a 15-year loan at 14% in the case of a hotel/office complex. The majority of the projects are tourism and agriculture/food related. These projects provide a good indication of the type and amount of demand for medium- and long-term credit that existed recently, and to a large extent, that exists today. Taken together, 26 tourism, agriculture, light manufacturing, forestry and other projects accounted for a demand for credit of over $8.7 million.

Table 1

COMMERCIAL BANK DISCOUNT FUND ACTIVITY BY SECTOR
APPROVED BY COMMERCIAL BANKS AND OTHER HIGH-POTENTIAL PROJECTS

Tourism and Tourism-Related Projects

| | Name of Project | Purpose | Amount of Loan | Status of Loan Request |
|---|---|---|---|---|
| 1. | Baycrest Apartments, Ltd. | Hotel in San Pedro | $ 75,000 | Approved; disbursed |
| 2. | Belize Marine Enterprises, Ltd. | Development of tourist complex on Moho Caye | 250,000 | Approved; disbursed |
| 3. | Smith & Sons Auto Rental and Tours | Increase number of rental vehicles; carport | 175,000 | Approved; disbursed |
| 4. | The Villa Hotel, Ltd. | Build additional 30 rooms | 625,000 | Approved, but not yet disbursed |
| 5. | Belize Marine Travel | Passenger Ferry for Belize City/San Pedro | 40,000 | Being negotiated |
| 6. | Belize Marine Enterprises, Ltd. | Additional loan to cover cost overruns on #2 above | 142,500 | Being negotiated |
| 7. | Chan Chich Reserve Resort | 12 cabanas, associated infrastructure | 375,000 | Just submitted; being negotiated |
| 8. | Chaa Creek Cottages | Build additional rooms/ facilities | 75,000 | USAID guided proposal preparation for CBDF, but principals obtained loan directly from Barclays Bank, as they urgently needed the funds. |
| 9. | Bird's Isle Development | Build six villa-type homes; seafood restaurant | 400,000 | Being negotiated |
| 10. | Heusner Project | Fishing Lodge | 130,000 | Approved; partially disbursed; discounting being considered |
| | Total Tourism and Tourism-Related Projects | | $2,287,500 | |

Agriculture, Livestock and Food-Related Projects

| Name of Project | Purpose | Amount of Loan | Status of Loan Request |
|---|---|---|---|
| 1. Maya Mariculture of Belize, Ltd. | Shrimp farming; four 25-acre grow-out ponds | $ 377,500 | Approved; disbursed |
| 2. Trinidad Farms, Ltd. | Cattle ranching; meat outlet in Belize City | 175,000 | Approved; disbursed |
| 3. Quality Poultry Products | Building and poultry processing facilities | 37,500 | Approved; disbursed |
| 4. Gustavo Marin, Sr. | Refinance existing loan; build pig stys; storage; pump house | 40,000 | Approved; disbursed |
| 5. Caribe Farms, Ltd. | Build packing shed and cold storage-winter vegetables to U.S. | 375,000 | Being negotiated |
| 6. Gallon Jug Farms | Livestock production | 1,625,000 | Being negotiated |
| | | | USAID helped prepare proposals for projects 7-11 below for CBDF consideration |
| 7. Greengold Ltd.* | Banana plantation expansion | 469,000 | Financed by Barclays Bank |
| 8. Sagitun Banana Company* | Banana plantation expansion | 117,500 | Financed by Bank of Nova Scotia and DFC |
| 9. Trio Ltd.* | Banana plantation expansion | 500,000 | Financed by Barclays Bank and LAAD |
| 10. Banana Growers Association* | Banana plantation expansion | 124,000 | Financed by Barclays Bank |
| 11. Cowpen Farms Ltd.* | Banana plantation expansion | 250,000 | Financed by Barclays Bank |
| Total Agriculture, Livestock and Food-Related Projects | | $4,195,500 | |

*The above five banana plantation expansion projects (proposals prepared by USAID) were found sufficiently attractive that the commercial banks financed them directly, rather than going through the CBDF facility.