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UNCLASSIFIED

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

BELIZE

PROJECT PAPER

HOME IMPROVEMENT PROJECT

AID/LAC/P-109

Project Number: 505-HG-001

UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON D.C. 20523

ASSISTANT  
ADMINISTRATOR

GUARANTY AUTHORIZATION

PROJECT NO. 538-HG-003

PROVIDED FROM: Housing Guaranty Authority

FOR : The Government of Belize

Pursuant to the authority vested in the Assistant Administrator, Bureau for Latin America and the Caribbean, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not to exceed Two Million Dollars (\$2,000,000 U.S.) in face amount, assuring against losses (of not to exceed one hundred percent (100%) of loan investment and interest) with respect to loans by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing projects in Belize.

These guaranties shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans may extend for a period of up to thirty years (30) from the date of disbursement and may include such terms and conditions as may be acceptable to A.I.D. The guaranties of the loans shall extend for a period beginning with disbursements of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.
2. Interest Rate: The rate of interest payable to the Investor pursuant to the loans shall not exceed the allowable rate of interest prescribed pursuant to Section 223(f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans made in the long term U.S. capital markets.
3. Government of Belize Guaranty: The Government of Belize shall provide for a full faith and credit guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranties to the Investor or from non-payment of the guaranty fee.

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add  
 C = Change  
 D = Delete

Amendment Number

DOCUMENT CODE

3

COUNTRY/ENTITY

BELIZE

3. PROJECT NUMBER

505-HG-001

BUREAU/OFFICE

LAC

05

5. PROJECT TITLE (maximum 40 characters)

HOME IMPROVEMENT PROJECT

PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY  
 1 2 3 1 8 4

7. ESTIMATED DATE OF OBLIGATION  
 (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 8 2

B. Quarter 4

C. Final FY 8 4

8. COSTS (\$000 OR EQUIVALENT \$1 = )

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	( 400 )	( )	( 400 )	( 400 )	( )	( 400 )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S.						
1. HG	2,000		2,000	2,000		2,000
2.						
Host Country						
Other Donor(s)						
<b>TOTALS</b>	<b>2,400</b>		<b>2,400</b>	<b>2,400</b>		<b>2,400</b>

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) HG	729		866				2,000		2,000
(2) FSF	729	866				400		400	
(3)									
<b>TOTALS</b>						<b>400</b>	<b>2,000</b>	<b>400</b>	<b>2,000</b>

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

1. Support and expand private sector participation in the financing and construction of shelter,
2. Stimulate and strengthen the institutional capacity of the local credit union system,
3. Preserve the existing housing stock of below median income families,
4. Assist GOB rationalize its housing delivery system.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY  
 0 8 8 3 7 7 8 4

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000  941  Local  Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a \_\_\_\_\_ page PP Amendment.)

17. APPROVED BY

Signature

Peter Kimm

Title

Director, PRE/HUD

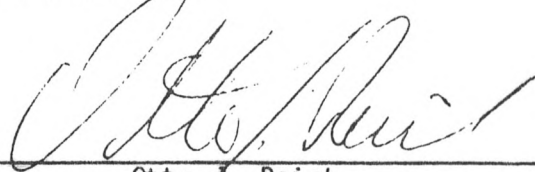
Date Signed

MM DD YY

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

4. Fee: The fee of the United States shall be payable in U.S. dollars and shall be one-half percent (1/2%) per annum of the outstanding guaranteed amount of the loans plus a fixed amount equal to one percent (1%) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.
5. Other Terms and Conditions: The guaranties shall be subject to the following terms and conditions:
- (a) The Government of Belize shall agree that, except as A.I.D. may otherwise agree in writing, prior to the selection of the Investor, the Government of Belize shall furnish, in form and substance satisfactory to A.I.D., evidence that the limit on the permissible lending interest rate for credit unions in Belize has been raised to eighteen percent (18%).
  - (b) The credit unions will covenant that they will make their best efforts to raise their interest rates on deposits to market levels.
  - (c) The guaranties shall be subject to such other terms and conditions as A.I.D. may deem necessary.



Otto A. Reich  
Assistant Administrator  
Bureau for Latin America and the Caribbean

Clearances:

PRE/ HUD: JHowley JK Date 9/1/82  
PRE/ HUD: FHansen JK Date 8/24/82  
PRE/ HUD: P Vitale JK Date 8/24/82  
LAC/ DR: DJohnson JK Date 9/3/82  
LAC/ CAR: RHechtman JK Date 8/24/82  
FM/ LMD: ES Owens ESD Date 9/3/82

GC/ HUD: MJWILLIAMS: prj: 08/20/82: 0438P

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MHW

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ACRONYMS

BCUL	Belize Credit Union League
CCCU	Caribbean Confederation of Credit Unions
CDB	Caribbean Development Bank
CIDA	Canadian International Development Agency
DFC	Development Finance Corporation
GOB	Government of Belize
MHHC	Ministry of Health, Housing, and Cooperatives
RECONDEV	Reconstruction and Development Corporation
SSA	Shelter Sector Assessment

PROJECT PAPER

BELIZE

HOME IMPROVEMENT PROJECT

I. SUMMARY AND RECOMMENDATION

A. Summary

Belize is a sparsely populated, newly independent country in Central America. Bordered by Mexico and Guatemala, its 145,000 population occupies an area the size of Massachusetts.

The most evident shelter problems in Belize are the aging and deteriorating housing stock and the absence of affordable and sustainable shelter policies, programs, and institutions. The proposed project responds to this need by providing home improvement loans in the short run while laying the basis through technical assistance for a sustainable and affordable program of new shelter construction in a second phase. The project operates mainly through private-sector credit unions. It also draws on substantial technical assistance to strengthen the credit unions themselves. The project relieves immediate pressures on the GOB for public-sector shelter investments while helping it to devise a shelter sector plan and appropriate policies for affordable housing which will have significant, positive longer-term economic effects.

The first-phase program would be a \$2.0 million HG for home-improvement loans and \$400,000 for technical assistance. Depending largely on the results of the technical assistance in policy and program terms, PRE/HUD would be prepared to propose a second phase HG to finance construction. This would be construction of new designs of affordable shelter by the private sector rather than the traditionally heavily subsidized, standard units produced by the public sector. Most of the first-phase home improvement loan would be concentrated in Belize City and other urban areas. \$250,000 of the loan, however, will be used by the Development Finance Corporation (DFC) for home-improvement loans in rural areas not reached by credit unions. This will complement DFC's other agricultural credit programs.

*supplemental  
technical assistance*

The \$400,000 of technical assistance will provide, during a two-year period:

1. Policy advice and assistance to the GOB in <sup>the</sup> shelter sector and in the management of project implementation. A resident technical advisor is needed for two years.



2. Short-term T.A. to prepare the basis for a possible shelter production project and to improve credit union administration. It is necessary to assess target group preferences, to design affordable solutions, and to test the acceptance of the designs by building a few prototypes. T.A. also will explore ways of mobilizing domestic savings for low-income shelter, assist in organizing a group to develop a national shelter policy, and strengthen existing sector institutions as well as the newly established Belize Building Society.

The project goal is to improve shelter conditions for below median-income households by upgrading the housing stock.

The project purpose is to:

1. Stimulate shelter credit activities and to strengthen the institutional capacity of the credit union system.
2. Support and expand private sector participation in the financing and construction of shelter.
3. Preserve and upgrade the housing stock.
4. Assist the GOB to rationalize its housing delivery system by focusing on policy, institutions, and housing solutions which are affordable to lower-income households.

The Borrower will be the Ministry of Finance. The GOB will guaranty the loan. The DFC will on lend to the Belize Credit Union League (BCUL), which will onlend to its member credit unions and to the Holy Redeemer Credit Union. The credit unions will administer the home improvement loans to their members. The DFC, as financial agent of the GOB, and the BCUL will establish the criteria which qualify individual credit unions to participate in the program. (See Section IV-E, "Conditions Precedent.") The DFC also will lend directly to rural beneficiaries for home improvements in conjunction with its ongoing agricultural credit programs.

All loans will be recovered fully at market rates of interest. Except for any possible foreign exchange loss, the program should impose no financial burden on the central government budget.

The first round of lending could finance some 1,300 home improvement loans. Lending from reflows could greatly augment the number of beneficiaries. (See Annex 10, "Cash Flow Analysis.") The effective demand exceeds project resources and a rapid disbursement of loan funds is expected during a two-year implementation period.

B. Recommendation

The intensive review of the proposed project concludes that the project is economically, financially, administratively, socially, and technically sound. It is recommended that a Housing Guaranty be authorized as follows:

1. Amount of Guaranty: US \$2.0 million to the Ministry of Finance, the Borrower, for a program of home-improvement loans to below-median income families.

2. Terms: The loan should be for a term of up to 30 years with a grace period of up to 10 years for the payment of principal, to be negotiated with the investor.

3. Interest Rate: The interest rate payable to the U.S. investor shall not exceed the allowable rate of interest prescribed by the AID Administrator pursuant to Section 2233(1) of the FAA, and shall be consistent with rates of interest generally available for similar loans.

C. Project Issues

The major issues raised by the DAEC review of the PID (see Annex 1, "PID Issues Cable") concerned:

1. Project Strategy

a. Project priority. The Issues Cable asked for a clarification of the "project's priority in relation to both AID's and GOB's strategies for addressing country's overall development needs." The GOB's development priorities are reflected in its 3-year Economic Plan of Belize 1980-1983. The nation's primary development thrust is in agriculture (29% of projected investment), economic infrastructure (39%), and social infrastructure (29%). Three percent of planned investment is for industry. Six percent of investment is scheduled for housing, 5.2% for water and sewerage. External capital requirements for these investments total \$120.5 million, 59% of total investment costs. The sources of external financing for housing projects have not been identified. Shelter and related infrastructure absorb an important element of total development expenditures in absolute monetary terms. The efficient application of these funds has high government priority and important economic and social consequences.

The Embassy agrees with the GOB's development strategy and judges that shelter financing will play an important part in that strategy. The Prime Minister's strong endorsement of the project is evidenced by the major lending policy change which the project will bring. (See Annex 3.) The project will increase private sector initiatives in the shelter sector by using the credit union mechanism, improve the

efficiency of the shelter sector delivery system, reduce shelter subsidies and expand output. (See Annex 2, "Logical Framework.")

The importance of the project to the GOB is evidenced by the personal involvement of the Prime Minister and his Ministers in its development at every stage from the SSA to the PP. This is consistent with the inclusion of 9 (largely unfinanced) shelter sector programs in its Economic Plan.

b. Mobilization of domestic savings. The Issues Cable noted that an essential condition for HG financing would be to raise the credit union interest rate ceiling; and it asked for an evaluation of the implications of interest rate policies on housing and on the general financial structure of the country. The GOB is drafting legislation to raise the maximum lending rate for credit unions from 12% to 18% p.a. Enactment of this change is expected by September 1982. It has not been decided whether this increase in the ceiling rate will apply to all credit-union lending or only to home improvement loans; but an increase for home improvement lending alone would constitute a major advance in financial policy. If the ceiling is raised for all loans, the credit unions may raise interest rates paid on member savings to 10%-12%. At present, commercial banks are paying 6%-11% on deposits (and up to 17% on certificates of deposit).

The target group of below-median income households uses credit unions as their principal financial intermediary. Its income is too low to qualify for commercial bank lending. Credit union officials, however, recognize that the supply of savings probably is sensitive to interest rate differentials. Credit union members save at commercial banks and borrow from their credit union.

As in the U.S., the current level of commercial lending rates (20%-22%) has depressed mortgage lending. The volume of loans for home improvements also is quite small. Home improvement loans constitute about 2% of commercial bank lending and 15-25% of credit-union lending.

The long-term solution to increasing the supply of domestic savings for the shelter sector probably lies in several measures in addition to interest-rate policies. These might include reestablishing the DFC's secondary mortgage operations, having the DFC and RECONDEV accept deposits, and promotion of the proposed Belize Building Society. It is recommended that three person-months of technical assistance be provided to examine ways of increasing the mobilization of domestic savings for the shelter sector.

## 2. Institutional Arrangements and Analysis

a. Administrative structures. The Issues Cable asked that the administrative channels and procedures be reviewed to see if they can be simplified. Although it is true that a number of institutions are involved in the administrative structure, the number is not avoidably large nor is the structure complex. The Ministry of Finance,<sup>2</sup> as the Borrower, operates through the Monetary Authority.

The PP Team explored the possibility of having the Monetary Authority lend directly to the BCUL and to the Holy Redeemer Credit Union as well as to the DFC. The Government of Belize wants the DFC to be its financial agent for the HG loan. As the GOB's industrial development bank, the DFC customarily plays this role in handling external resources. The Monetary Authority does not get involved in the details of project implementation, nor does it want to do so.<sup>3</sup>

The HG funds will be deposited in U.S. dollars in the account of the Monetary Authority in the Federal Reserve Bank of New York. The Federal Reserve Bank will inform the Monetary Authority. The Monetary Authority will deposit the local currency equivalent in the Belize Bank designated by the DFC. The role of the Monetary Authority is to facilitate the mechanical transfer of funds. The role of financial agent logically is that of the DFC.<sup>4</sup>

b. Institutional Analysis. The Issues Cable asked for analysis of the financial intermediaries, including an assessment of their capacity to implement the loan and a discussion of the role of construction codes and standards in the project. Section II-B-5 examines the lending history of the DFC and the credit unions, their financial status, and their technical capacity to implement the project. It highlights the fact that the main weakness of the DFC has been its high arrearages. The causes of historically high arrearages, however, should not operate in the case of the HG loan. The DFC's collateral requirements on its own subloans in rural areas will safeguard the loan; and the DFC says that it will enforce payments by promptly foreclosing on collateral if payments are delinquent.

Arrearages have been less of a problem with credit unions; and even that record recently is improving in several instances. The BCUL and the Holy Redeemer expect to have minimal arrearages or defaults on the home improvement loans. Loans will be adequately secured by member shares with credit unions and other collateral and will be further safeguarded by credit union reserves.

Few credit unions have the in-house capacity for technical evaluation of subloans. The plans for home improvements which require structural changes or additions to living areas are to be submitted to the Department of Housing

and Town Planning of the Ministry of Housing or to the Town Board in towns where the Department has no office. These and other types of home improvements must have technical plans and budgets submitted for the approval of the credit union. The credit union financial spread will cover any cost of hiring outside expertise for these activities.

Annex 6 analyzes the Belize construction codes and standards and discusses their enforcement in general and in relation to the proposed project in particular.

3. Effective Demand. The Issues Cable requested an examination of the effective demand for home improvement credits at the higher interest rates required in the project. Section III-C-1 analyzes the effective demand for home improvement loans at an 18% p.a. interest rate and concludes that the effective demand will exceed project resources.

4. Technical Assistance. The Issues Cable asked that the intensive review reassess the amount of technical assistance which is proposed and its effect on the economic feasibility of the project. The PP Team reassessed the T.A. requirements for the proposed loan and for preparing the institutional and technical bases for a better shelter delivery system. The amounts and rationale are discussed in detail in Section III-F, "Technical Assistance." The conclusion of the intensive review is that the amounts of the proposed T.A., while high, are inescapably necessary to achieve the long-term policy goals and their important economic and institutional effects. If the T.A. were charged entirely to the economic cost of the proposed project (and it should not be), it would reduce the internal economic rate of return (by about 6%) to some 23%, still well above the opportunity cost of capital in Belize.

IEER  
calculations

## II. PROJECT DESCRIPTION

### A. Background

1. Overview. As in many developing countries, shelter has been a postponable investment over a protracted period. A relatively low population growth rate, high emigration rates of labor-force-age people, and low population-to-land densities have combined with a tropical climate to produce an aging and deteriorating housing stock. Belize has a population density of only 16.4 persons per square mile; but overcrowding is a growing problem in Belize City where houses designed for occupancy by seven persons can have up to 21 persons living in them.

Approximately 60% of the 26,000 units of housing stock in Belize was built between 1960 and 1970, 36% before 1956.

In Belize City, 63% of the 6,300 houses were built before 1956. Many of the houses were damaged by Hurricane Hattie in 1961. According to the 1970 Census, nationwide 79% of the buildings are made of wood; in Belize City, 96%. The widespread deterioration of the housing stock, particularly in Belize City, is evident and reflects the low economic standards of the people, the paucity of disposable income, and the unavailability of credit.

The Shelter Sector Assessment concluded that infrastructure deficiencies, while serious and varying from town to town, are not as pressing as the problem of the deterioration of the housing stock. The Belize City water supply system, which covers the entire city either by stand pipes from the street to private yards or by direct connection to houses, is now being upgraded through a project largely financed by CIDA. In Belmopan, the metered water supply system connected to individual homes can accommodate a population 5 times the size of the present population. All District Towns are served with piped water. In small villages, service is supplied by drilled wells and hand pumps.

Work on improving the Belize City sewerage system is well underway and should be completed by 1986. It will cover the residential areas of the entire project group. The first-phase of the CIDA-financed project began in August 1979, the second phase in February 1982. The present sewerage system is adequate for the population of Belmopan.

There still are large rural areas without electricity but generating capacity is sufficient for the population which is served with electricity.

The highest immediate return from shelter investment will be capital for home improvements which can preserve the housing stock and the provision of critically important technical assistance which lays the basis for major sector improvements. The proposed project responds to this need by channeling resources through existing financial intermediaries, in particular the credit unions, which are in place throughout the country.

The Economic Plan of Belize, 1980-83, places the annual need for new housing at 1,200. The SSA estimate is 700-800 units per year. At present, public sector institutions provide approximately 25% of the lower estimate. There is insufficient data available to obtain a clear picture, but the formal sector appears to produce somewhat less. The informal sector accounts for most shelter production.

The capital budget of Belize contemplates financing largely from external sources. The housing development program is large and cannot be financed without substantial external financing. The investment program depends on conti-

nued receipt of predominantly grant and concessional monies. At the same time, however, the country now must begin to enter commercial markets for funds and must start to regulate its internal financing and external borrowings to reflect affordability.

2. Other Donors. The Belize City Water and Sewerage System Project, Phases I and II, is a joint effort of CIDA and the GOB. The project provides for the completion of the water and sewerage project for the entire Belize City area. Design work has been completed. The main distribution lines should be in operation by 1985-86.

The CIDA project is of particular interest to AID's proposed home improvement project. It is anticipated that home improvement loans will be sought in order to pay for the expansion of houses and the installation of toilets and sinks as well as pipes to permit individual household connections to the water and sewer mains. Connection costs are not financed by the CIDA project. (See Annex 13.)

*not true!  
visit CIDA  
to confirm*

The United Kingdom's Corozal District Villages Water Supply project in the Northern-most district of Belize will provide a safe and reliable water supply for villages. Certain preconditions still need to be met before progress can be made on the water and sewerage connections to Corozal District's main transmission pipeline. The U.K. is financing the total cost of \$222,000.

The U.K. has also expressed interest in financing a Rural Water Supply project to provide small-piped distribution water systems to rural villages. It is anticipated that the cost, to be financed entirely by the U.K., will be \$400,000.

The World Bank expects to start a program in Belize in 1983. They have not discussed any specific projects with the GOB, but they do not anticipate that their program will be in any conflict with AID's housing project. Discussions thus far concentrate on power generation and other physical infrastructure. The IFC is exploring private sector ventures in agriculture and agro-industry.

3. AID Shelter Assistance Activities. Belize has been a major beneficiary of AID assistance through loans to the Caribbean Development Bank (CDB). The CDB made available to the Government of Belize \$176,000 of AID loan funds for the construction of 196 low-cost homes in the townships of Ladyville and Belmopan. The subloans to the beneficiary were at 12% for 20 years. Under the CDB's Secondary Mortgage operation, established with AID loan assistance, the DFC also originated and sold to the CDB approximately \$1.4 million in mortgages.

In addition to the proposed HG, AID is providing nearly US\$1.5 million (Grant 035) for a five-year program to develop the capacity of the Caribbean Confederation of Credit Unions to provide common services and training to national and local credit unions in the region. This project is also being supported by CIDA. US\$60,600 in grant support has been given to the Belize Credit Union League (BCUL). These funds are being used to pay the salaries of the BCUL's manager and a field representative as well as in-country transportation costs. Disbursements for the Belize component of this project started in 1981.

Finally, AID is recommending a \$10.0 million ESF for Belize. It would be used mostly to fund a rediscount facility to encourage commercial banks to lend for developmental purposes.

4. Project Strategy. The proposed project will be the first direct AID project in Belize. The SSA finds that traditionally high shelter expectations and high construction costs exceed what the target group can afford. The limited public housing which is available is deeply subsidized and a vast supply of housing in Belize will be lost to deterioration if steps are not taken to repair and maintain existing structures. The institutional capacity of the shelter delivery system in Belize is weak; and credit for shelter activities is virtually nonexistent.

A strategy should be based on the need of the GOB to rationalize its shelter sector delivery system and to strengthen the capacity of its public and private shelter sector institutions. The objective would be to develop a shelter sector delivery system which can provide long-term financing for affordable shelter solutions. In the long run, this will require cost recovery in the framework of a deliberate public policy to promote private sector financing and construction of shelter for all income groups.

The project strategy should,

- o Provide technical assistance to help develop policies, programs, and institutions which will rationalize shelter sector activities through the development of marketable, affordable shelter solutions; to get the GOB to consider reducing its role of primary housing producer and to minimize subsidies; and to clearly define the roles of housing institutions;

- o Support the institutional development of existing or potential private sector institutions involved in financing shelter activities (e.g. credit unions and the National Building Society), and;

- o Encourage efforts to preserve the housing stock.



The strategy includes the immediate initiation of a relatively small HG program in order to stimulate the sector and to provide a reliable, interim source of shelter finance. The HG loan must be complemented by substantial amounts of technical assistance in order to help strengthen and rationalize the shelter sector delivery system, assist in implementation of the first HG loan, and define shelter sector policy objectives in preparation for continuing activities.

The first HG loan would be channeled through the financial institutions which are best prepared immediately to implement a self-sustaining program. The proposed loan would concentrate on preserving the housing stock by financing home improvements. Depending on important policy movement in the sector and the development of acceptable, affordable solutions and institutional capabilities, a second loan may be used to finance new, affordable units by private and/or public institutions, such as the Belize Building Society, which do not presently have the institutional capability to implement a program.

5. Beneficiaries. Beneficiaries will be below-median income households who are credit union members or farmers. Median household income is estimated to be \$3,500 per year. The first round of loans can be expected to directly benefit about 1,300 households. Lending of reflows will extend the coverage significantly. The program is nationwide, but most of the loans are expected to be in Belize City. Since approximately half the homeowners in Belize City are women, it can be expected that women will be prominent beneficiaries of project activities.

B. Detailed Project Description

1. Sector Goal. The sector goal is to improve shelter conditions for low-income households by promoting and financing efforts to coordinate shelter policies and to stimulate private investment in upgrading the housing stock through home improvement loans.

2. Project Purpose

a. Encourage local credit institutions to stimulate shelter credit activities and to strengthen the institutional capacity of the Credit Union System.

b. Support and expand private sector participation in the financing and construction of shelter.

c. Preserve and upgrade the nation's housing stock.

d. Assist the GOB to rationalize its housing delivery system by focusing on policy, institutions, research, and development of examples of housing solutions which are affordable to lower-income households rather than having the government produce heavily subsidized, standard housing.

3. Project Outputs. At an average of \$1,500 per loan, the proposed project could finance some 1,300 home improvements in the first round of lending. An illustrative sampling of the types of improvements contemplated and their approximate cost is presented below:

<u>Improvement</u>	<u>Unit Cost(\$)</u>
- Household connection to water and sewerage system	75
- Installation of a complete new bathroom	1,200
- Repair of minor structural damage from hurricanes	1,000
- Upgrading from wooden stilts to concrete piles, and accompanying foundation work	900
- Enclosing open area beneath first floor in order to increase habitable space	1,500
- Upgrading of kitchen (plumbing, electrical)	300-600
- Addition of a room (80 sq. ft.)	1,800

The determining principle in setting loan limits is that they be affordable to below-median income families. For this calculation, up to 25% of household income can be used to service the loan. This provides an absolute maximum loan value of about US\$4,725, assuming 18% annual interest charges and 20-year terms.<sup>2</sup> Given the nature of a home improvement/expansion program, it is anticipated that very few loans will run for 20 years and that most improvements will be substantially below the arithmetic ceiling shown above.

A resident technical advisor will concentrate on policy advice and on project implementation; and he will coordinate T.A. with the DFC, the credit unions, the Department of Housing and Town Planning of the Ministry of Health, Housing and Cooperatives, and with the RECONDEV. The short-term T.A. focuses on shelter sector policy and on preparing a basis for future shelter activities. (See Section III-F, "Technical Assistance.") The policy advisor role will require that the resident technical advisor be able to carry on a dialogue with GOB officials as well as with implementing institutions. For this reason the advisor may be located physically, either in the BCUL or in an appropriate Ministry or government agency.

4. Project Inputs. The proposed \$2.0 million HG would finance home improvements. While requiring satisfac-

tory collateral, home improvement loans do not involve down payments. No counterpart financing is involved. In addition to the \$2.0 million HG, however, \$400,000 of technical assistance is to be financed from CBI supplemental. The T.A. (see Section III-F, "Technical Assistance") consists of:

<u>Function</u>	<u>Person Months</u>	<u>Cost</u>
Resident Advisor	24	\$180,000
Short-term T.A.	29	220,000
TOTAL	53	\$400,000

5. Participating Institutions

a. The Development Finance Corporation (DFC) is the national industrial development bank of Belize. Its limited housing activities have made it, along with the Department of Housing and Town Planning of MHHC and RECONDEV, one of the three principal housing/housing finance institutions in the country.

In 1976, DFC was designated as the Belize authorized agent for CDB's Secondary Mortgage Housing Scheme. Between 1976 and 1978 the CDB committed \$2 million for the purchase of housing mortgages under this program. The CDB secondary mortgage operation would appear to have been a leading factor in the DFC role in housing finance. Subsequently, CDB funding for this secondary operation dried up. As a result, the DFC lending activity to the sector has also declined significantly. In the past, lending for shelter by DFC has gone to moderate and middle income families. However, lending for home improvement/expansion is a natural complement to existing DFC activities in agricultural and agribusiness credit. The DFC has an in-place administrative network for conducting an otherwise expensive, scattered-site, small loan program. The central office is located in the capital city of Belmopan, with additional offices functioning in each of the district capital cities. Total staff is 57, two of whom are responsible for housing operations.

Annex 7 presents summary financial statements and operating statistics for the DFC. In the 4 years ending 31 December 1981, the annual growth rate of some of the key performance indicators showed:

18.4%	Total assets/liabilities
31.8	Loan portfolio
17.6	Gross income

DFC's funds have come largely from external sources through 1981.

65%	CDB
12	CIDA
7	UK
4	European Development Fund
12	Internal

The DFC was reactivated by the GOB in 1973 with a small equity base of about \$200,000 and lines of credit of up to \$600,000 from the CDB for agricultural and industrial lending. From 1973 through 1981, the DFC approved \$22.2 million in loans, mostly in agriculture (57%). Nearly 22% of total lending has been for housing. Housing loans, however, dropped sharply in volume in 1981 to 10% of total new loan approvals after running 30-40% of loan approvals during the preceding 3 years.

If the DFC were to commit its HG allocation during 2 years, it would add about 1.0% annually to its total portfolio, 3.1% to its volume of new loan approvals, and bring the proportion of shelter lending to about 14% of total lending. The conclusion is that DFC is capable of handling the HG loan without overburdening its administration or biasing its main developmental activities in agriculture and industry.

The DFC has been troubled with arrears in the past. Upon closer examination of the composition and aging of arrears, however, the PP team concluded that the problem has not been all that serious in DFC's housing portfolio; and DFC's opinion that arrears on home improvement loans will be insignificant seems credible. As of 31 December 1981, 19.8% of DFC's housing portfolio was in arrears -- nearly the same as the 20.3% arrears on principal of total portfolio. Only 5 of the 178 housing loans outstanding, however, were in arrears for more than 3 months; none was more than 9 months in arrears; and none of the housing loans had been rescheduled.

b. The Credit Unions. The credit union movement in Belize is large, nationwide, and the principal source of credit for the target group. 22 of the 23 active credit unions are members of the BCUL. As of the end of 1981, they had 12,382 members, \$2.1 million in assets, \$1.9 million in savings, and \$1.8 million in loans outstanding. Nine of the BCUL credit unions are located in Belize City. The others are spread throughout the remaining districts. Mesopotamia and St. John's in Belize City, La Inmaculada in Orange Walk District, and Mount Carmel in Cayo District each have over 1,000 members.

The largest credit union in the country, the Holy Redeemer, is not a member of the BCUL. At the end of 1981, it had nearly 20,000 members, \$6.4 million in assets, \$4.9 million in savings, and \$5.7 million in loans outstanding.

	Members	%	Assets	%	Savings	%	Loans	%
BCUL	12,382	38.2	2.1	24.7	1.9	27.9	1.8	24.0
HRCU	20,000	61.8	6.4	75.3	4.9	72.1	5.7	76.0
	32,382		8.5		6.8		7.5	

Nationwide, 15 of the credit unions have full-time staff.

Although essentially a vehicle for consumer credit, the movement does finance home improvements and expansion. Credit union officers estimate that 10-15% of total lending is for housing purposes. For the Holy Redeemer it amounted to nearly 25% of lending in 1981; and officers said that home improvement loans would have been much more if more funds had been available.

Given their extensive network nationwide, their experience with consumer credit and the demand for home improvement lending, the credit union network is a natural vehicle for home improvement loans.

Annexes 8 and 9 summarize the financial statements and the principal operating statistics of credit unions. The proposed loan would add about 12% annually to credit portfolios. The loan portfolio of BCUL member credit unions has been growing at 16% p.a., 1977-1981. The credit unions can handle the proposed loan with little difficulty. (See Section III-A, "Administrative Feasibility.")

6. The Project. The Borrower will be the GOB (Ministry of Finance). The Borrower will pass the local currency equivalent on to the DFC. The DFC will (1) lend directly to individual rural beneficiaries in conjunction with its agricultural credit programs and (2) open a line of credit to the BCUL, which will be the administrative agent for the credit unions.

The BCUL will:

- develop with the credit unions, including Holy Redeemer, a mechanism for system-wide allocation and disbursement, including the criteria for credit union and beneficiary participation in the project;
- administer mortgages and loan contracts through its member credit unions; and
- make repayments of principal and interest to the DFC.

The credit unions will be the financial intermediary which deals directly with its member-beneficiary. As such the credit unions will:

- verify the credit and income eligibility of the beneficiary;
- arrange disbursements with the beneficiary;
- inspect construction and verify work in place;
- receive the monthly payments resulting from debt servicing; and
- forward monies to BCUL in a timely fashion.



Private contractors will be selected by the individual beneficiary, who will be responsible for securing any necessary permits and approvals.

Income from subloan repayments beyond that needed to secure the HG loan, as well as any reflows during the grace period, will be relent for additional home improvement loans by the BCUL and the DFC.

The interest rate to the beneficiary will likely be about 18%. This will cover the charges by the U.S. investor, AID's fees, and all intermediation spreads. The DFC, as financial agent for the GOB, will charge a 1/2% spread for onlending to the BCUL and servicing the loan to the Ministry of Finance. The BCUL will charge 1/2% for onlending to individual credit unions and servicing the loan to the DFC. The credit unions will charge 2% for administering the loan to its member beneficiaries. The DFC, as financial intermediary for rural home improvement loans, will charge 2 1/2% for its loans to rural beneficiaries. Apart from the AID fees, the total financial intermediary spread to the beneficiary will be 3%.

### III. PROJECT ANALYSIS

#### A. Administrative Feasibility

1. Development Finance Corporation (DFC). The project design calls for the DFC to fulfill a dual role as the GOB's financial agent for the HG and as the implementing institution for lending to farm families.

The DFC has processed more than \$15 million of external funds for the GOB and therefore should find its role as financial agent routine and undemanding. The DFC will arrange with the private US investor for drawdowns and loan repayments; it will channel money to the BCUL against prearranged disbursement criteria; and it will receive payments from the BCUL for forwarding to the US investor.

DFC activities have concentrated on the agricultural sector, which received fully 53% of all loan approvals from 1973 to 1979. Home improvement lending for rural households is a natural complement to its agricultural credit activities. The project will be promoted by the DFC's present extension and credit supervision staff. Two central office staff, located in Belmopan, now have responsibility for housing operations and will be responsible for on-site inspection of subloan construction. They will supplement the normal extension staff. One additional technical person will be added if implementation experience shows this to be

required. The DFC, however, should be able to service the additional 50-60 loans per year over a two-year implementation term.

2. Belize Credit Union League. The BCUL, with the assistance of a Committee of its members and a representative of the Holy Redeemer Credit Union, will establish an initial allocation system among the credit unions. BCUL also will promote the program among the credit unions, monitor the progress of disbursements, receive payments from the individual participating credit unions, recycle available reflows back to individual credit unions for additional home-improvement lending, and make required repayments to the DFC for forwarding to the US investors. Approximately 1 year into the project, the BCUL and the Committee will make any adjustments in allocations which experience indicates to be necessary.

Although the BCUL has been in existence for a little more than a quarter of a century, the development of the technical and human resource capacity to provide specialized services to its constituent credit unions is fairly recent and requires strengthening. Present staff consists of an Executive Director, an extension officer, one clerk typist, and a messenger. All of the staff is full time. The BCUL is currently in its second year of a 5-year agreement with the Caribbean Confederation of Credit Unions under which BCUL receives \$60,600 in grant support to assist in the payment of the salaries of the Director and the extension officer. It is envisioned that one additional staff person will be hired to manage the project. His cost will be financed by the BCUL spread.

The BCUL will be a major recipient of the T.A. to be provided for project implementation. (See Section III-F, "Technical Assistance.") The Resident Advisor will work closely with the BCUL to reinforce its capacity and to orchestrate the short-term institution-building T.A. inputs.

In addition to the CCCU grant referred to above, the other major income source for the BCUL is the dues received from member credit unions, which for budget year 1983 is estimated to produce \$9,500.

3. Credit Unions. The individual credit unions will administer the home improvement loans to its members. Aggregate data and working visits to six credit unions established that all of the credit unions currently are lending for home improvements. The only constraints on expanding their home improvement lending has been the overall shortage of funding and the corresponding need to restrict the relatively large home improvement loans in the interest of serving a larger number of smaller loan requests.



The small population of Belize, the relative stability of neighborhoods, and the extended family tradition provide the ideal ambience for the operation of a good credit union system. The combination of a cadre of full-time paid staff and volunteer inputs from the membership produces a financially viable operation that still has the personal touch.

Administratively, the project in question will not ask the credit unions to do anything that they are not already doing. Visits to Teachers, Wesley, St. Johns, Civil Service, Mesopotamia and Holy Redeemer credit unions reveal essentially the same pattern for processing home improvement loans. The applicant submits a plan approved by the Department of Housing and Town Planning or the Town Board in those urban areas where the Department is not represented, and a budget drawn up by a contractor. Contractors are known to the credit committee. Collateral requirements can be an appropriate combination of pledged shares, a cosigner, and a mortgage on the property.

If the credit union does not have in-house technical competence to inspect work in progress, to verify the quality of the workmanship, and to judge the technical appropriateness of the solution, it readily arranges for those services on a fee basis. Disbursements, except in the case of minor improvements, are partial and are based on a satisfactory verification of the value of work in place.

The additional volume of activity for any single credit union as a result of this project is too small to require additional staff. The procedures are in place. What this project will provide is the additional capital to meet more of the existing demand for home improvement money. It does not represent any new or untested service for the membership or the staff.

## B. Economic Analysis

1. The Current Economic Situation.<sup>1</sup> After a strong growth performance in the early and mid-1970s, averaging 5% a year, economic expansion has slowed during the past 3 years. Real GDP grew 1% in 1981, following an average increase of about 2% in each of the two previous years. The slowdown in economic growth was largely a result of poor agricultural performance and stagnation of the manufacturing sector. Exports and the construction, services, and tourism sectors, on the other hand, expanded somewhat during 1981.

The medium and long-term development of Belize requires that the country realize its potential in agriculture, fishing, light industry, and tourism. In order to exploit its natural resources, the Government should promote private

investment and attract agricultural settlers and skilled manpower into Belize.

There is a shortage of managers and skilled labor in Belize. It will be difficult to change this situation in the short run because of the rudimentary state of social infrastructure and a lack of training facilities in the country. The Government is trying to ease the situation by providing student loans; by upgrading housing, electricity, and water facilities; and by making it easy to obtain work permits.

Officially the Government encourages the private sector, both domestic and foreign, to participate fully in the development of Belize. The Government feels that its responsibilities towards the private sector include establishing a good bureaucracy, regulating prices, granting tax concessions to appropriate industries, providing infrastructure, and setting up businesses which are viewed as desirable but unattractive to the private sector.

Public sector investment amounted to \$26 million in 1981, about 13% of GDP. This compared favorably with the previous year. However, it reflected primarily good disbursements on previous large commitments since only a few major new projects have been started. New projects must be undertaken soon if this level of investment is to be maintained.

The success of the Government in implementing future investment programs will depend on its ability to increase public savings, to obtain additional external resources, and to improve the process of monitoring projects in both physical and financial terms.

The total financing requirements for the 1982-85 investment program are estimated at \$171.2 million, including external amortization of \$4.3 million. These requirements are projected to be met by: (a) public sector savings of \$22 million, 12.5% of the total; (b) external inflows of \$121 million, 70.6%; and (c) other domestic sources, mainly net domestic borrowing, amounting to \$29 million, 16.9% of the total.

The external financing can come from three different sources: (i) specific project allocation of the UK independence grant/loan of \$22 million; (ii) new commitments from traditional donors/lenders and (iii) external borrowing on conventional terms. Specific sources for the external financing still are unidentified to a large extent; but if the projected public investment is realized and appropriate monetary and fiscal policies are continued, the economy is expected to return to an annual growth rate of 5% by 1985.

2. Creditworthiness. The outstanding and disbursed public and publicly guaranteed external debt as of the end of 1981 was estimated at about \$55.0 million, or 30% of GDP. However, due to the maturing structure and concessionality of most loans, the debt-service ratio on existing debt accounts for less than 2% of both export earnings and GDP and is projected to remain at this low level during the coming years. The proposed loan would add about 0.01% to the annual debt-service ration.

The Ministry of Finance recognizes that shelter investments, although fully recovered, do not produce foreign exchange with which to service the HG loan; but it correctly judges that, since the scheduled repayments are relatively small because of the relatively long HG maturity, the foreign exchange requirements can easily be programmed.

If the Government continues to pursue prudent economic and fiscal policies, Belize can be considered to be credit-worthy for borrowing on conventional terms.

3. Economic Viability. The proposed loan establishes lines of credit to finance a variety of home improvements. There are no specific subprojects which can be analyzed before the project begins. In order to calculate an internal economic rate of return (IERR) on the project, one would have to know the mix of subprojects to be financed for each type of home improvement; the detailed financial costs for each subproject; the adjustments required to convert financial costs into economic costs; and the stream of economic benefits. Since these data are unknowable ex ante, one usually foregoes the IERR exercise for lines-of-credit loans like a HG.

Nevertheless, the comparison between economic and financial costs and benefits establishes a presumption that the IERR on subprojects will exceed the opportunity cost of capital and that the project therefore will make Belize better off with than without the project even without attempting to quantify the important, longer-term economic and social benefits of T.A. in modifying policies.

The HG funds will be lent at a market rate which provides for full cost recovery. Each subproject will have a physical plan and a budget which must be approved. While this does not guarantee that the subproject will be undertaken at least cost, it does provide some reassurance that the financial costs will not be grossly inflated. The internal financial rate of return (IFRR) on subprojects is acceptable to both borrower and lender since subloans are judged by them to be mutually beneficial.

The IERR will be higher than the IFRR for two reasons:

a. 90% of construction materials are imported and bear a 30% import duty. The import duty is not an economic cost. About 60% of the cost of a typical home improvement is the cost of materials. The import duty consequentially raises the financial cost of the home improvement to 116% of its economic cost.<sup>2</sup>

b. The effective demand for home improvement loans at 18% exceeds the HG resources. (See Section III-C-1.) This unrequited demand indicates that the supply of funds could be lent at a higher interest rate. The difference between the market-clearing rate and the estimated 18% (maximum) to be charged the beneficiary is a measure of the excess of economic benefits over financial benefits. Commercial banks currently lend to higher-income families at 20-22% for home improvements. Economic benefits<sup>3</sup> consequentially are 11-22% more than financial benefits.

In sum, financial costs are about 16% greater than economic costs and economic benefits are, say, 15% higher than financial benefits. Present inflation rates of an estimated 15% and market interest rates of 20-22% suggest an opportunity cost of capital of about 6%.

The IERR would be about two thirds higher than the IFRR for a home improvement with a 6-year useful life.<sup>4</sup>

### C. Financial Analysis

1. Effective Demand for Home Improvement Loans. The best available evidence regarding the extent of effective demand for home improvement loans is: (a) How much credit unions now are lending (12%) for home improvement loans; (b) the opinion of credit union officers regarding the demand at a higher (18%) interest rate; and (c) the logic of the price-elasticity of demand.

a. It is estimated that the credit unions in 1981 lent about \$840,000 for home improvements. This estimate is based on a survey of 8 of the 22 credit union members of the BCUL which together accounted for 68% of BCUL member loan portfolios and an analysis of the Holy Redeemer Annual Report for 1981. If the HG loan were disbursed over a 2-year period, it would amount to a 4% increase in nominal terms over the 1981 level of lending for home improvements, less than now is being lent in real terms.

b. Credit union officials without exception stated that they could have lent much more (2-3 times as much) if they had had sufficient resources. St. Johns Credit Union, for example, had over 100 applications for home improvement loans. They granted 38 loans. Home improvement loans amounted to 24.0% of the total loans approved by the Holy Redeemer credit committee. The commit-

tee was reluctant to concentrate more of its lending in home improvements at the expense of lending for other purposes to its members; but the demand, it says, was there.

The credit unions also had to ration the size of home improvement loans. The average home improvement loan made by BCUL members was \$509; by the Holy Redeemer Credit Union, \$294. The HG loan will make it possible to grant larger loans as well as a larger number of loans.

c. Without exception, credit union officials also voiced their conviction that beneficiaries would be eager to borrow at 18%. The logic of this is persuasive. Interest rates have less impact on monthly payments for short amortization periods. The monthly payment for principal and interest, for example, on a loan of 1,000 would be:

<u>Months</u>	<u>12%</u>	<u>18%</u>	<u>% inc. in PMT</u>
12	88.85	91.68	3.19
24	47.07	49.92	6.05
60	22.24	25.39	14.16
360	10.29	15.07	46.45

The potential borrower has the option of borrowing at 18% or not being able to borrow at all. For a 24-month loan of 1,000, he would pay \$2.85 more per month at 18% compared to 12%. Alternatively, he could amortize the loan in 26 months at 18% instead of 24 months at 12%. In fact, the beneficiary can tailor his monthly payments to fit his own budget, trading off absolutely lower monthly payments for a longer amortization period than now is possible.

In sum, the logic suggests that credit union officials are correct in thinking that effective demand is relatively insensitive to interest rate differentials in the short run.

2. Financial Implications. The financial intermediaries (FIs) will have no cash-flow problems. The beneficiary pays an interest rate, say 18% p.a., which fully covers the cost of servicing the HG loan as well as all intermediation costs. The FIs (the DFC, the BCUL, and the credit unions) have repayments of principal and interest on relatively short-term subloans during the HG grace period, which furnish funds for new rounds of lending after servicing the HG loan.

With appropriate technical assistance for managing the reflows, the FIs will be able to lend larger and larger amounts for home improvements. The calculations show that the annual volume of lending would reach \$1.0 million in year 13 and exceed \$3.3 million in year 22. (See Annex 10.)

### 3. Summary Financial Plan (\$000s)

	<u>1983</u>	<u>1984</u>	<u>Total</u>
HG Loan	800	1,200	2,000
Technical Assistance	222	178	400
Total	1,022	1,378	2,400

#### D. Social Analysis

The proposed project responds to a social need in a manner that is compatible with the social values and existing activities of below-median income households in Belize. It augments the resources of a working grassroots financial system, ensures an equitable and verifiable distribution of HG resources, and will be well received by the target population.

Women will have unimpaired access to the home improvement loans as heads of household, owners of houses, and as active members of the credit unions.

The benefits of home improvement are numerous. They encourage the stability and participation of the family in the maintenance of the house, improve sanitation and safety, and upgrade the neighborhood.

The timing of the project is appropriate. Since independence in September 1981, Belizeans have had high expectations for improvement. The construction of the water-sewer system reinforces their aspirations and will encourage home improvement plans.

##### 1. Motivation for Change.

a. Target Group. Aspirations for a better way of life are widespread throughout Belize. Belizeans are well educated, with an adult literacy rate of almost 90%. A television station that broadcasts WGN-TV news from Chicago, Radio Belize, and a press that is completely free from censorship have alerted Belizeans to the joys of consumerism.

Belizeans are not a homogeneous people. The population includes Mayans, Latins, Creoles, Europeans and Asians. About a third of the population is of mixed racial and cultural descent.

Regardless of ethnic background, the extended family is an important factor in the decisions made by individuals. The small-town quality of the entire country is reflected in wide interest in the activities of other people in the community and in a desire to improve living conditions.

The rate of emigration to the United States and other affluent countries is high. Remittances comprise an important contribution to household income and reinforce the com-

mitment of family ties between Belizeans at home and overseas.

b. Participating Institutions. Membership in credit unions is widespread throughout Belize, especially among families of median and lower income. Credit unions serve groups of people who are related through bonds of religion, occupation or neighborhood affiliation. Members pool savings and extend loans among themselves. An elected committee of ones peers determines eligibility for loans based on an assessment of character and repayment record.

Women are particularly active in credit unions, most of which are managed by women. In Belize City this reflects the high incidence of households headed by women in a Creole society that is essentially matriarchal.

The small scale of Belizean society and the day-to-day involvement of credit unions in the provision of financial counsel to lower income households create a strong sense of personal accountability among members. The repayment of loans is a high priority in the management of household finances.

Belizeans of median and lower income rely on the credit unions for all types of non-commercial loans. Credit union officers emphasize their desire and obligation to provide service to their members. They say that lending is limited only by the shortage of funds.

2. Living Conditions and Household Income. The median annual household income is estimated to be about \$3,500. Belizeans are relatively well off compared to other countries in the region. However, since income includes remittances from family members overseas, monthly household income is not dependable. Open unemployment has been estimated to be as high as 40% in Belize City. Remittances fluctuate with the economy of the United States. Credit unions buffer the shocks of fluctuations in income as well as constituting the target group's "bank." Membership in credit unions is also nationwide.

There is a serious need for housing improvement and expansion in the congested neighborhoods of Belize City because of overcrowding. The average household size is 7-9 people, significantly higher than the national average of about 5. In some areas of Belize City, doubling and tripling of households in a house originally built for one family compounds the congestion.

In secondary towns and rural areas more land is available, the houses are farther apart, and household size is smaller. There the need for housing improvement is less dra-

matic. Nonetheless, households throughout the country need financial assistance to improve and expand their dwellings.

Lack of a central water or sewerage system in cities and towns has resulted in disposal practices that are unsightly and unsanitary. In the congested neighborhoods of Belize City, water for household use is taken from public standpipes and human waste is dumped into drainage canals. The CIDA-financed water and sewerage project should improve this situation in Belize City within the present decade by establishing a central system to which households can connect. (The CIDA project does not finance household connections.)

The greatest concentration of need and demand is in Belize City. At the same time, the greatest opportunity for improvement is there too, because of the CIDA water and sewer project. A description of Mesopotamia, a poor neighborhood in south Belize City, is in the Social Soundness Analysis. (See Annex 11 "Social Soundness Analysis".)

A possible constraint to the application for home improvement loans is the high percentage of housing occupied by renters. Analysis of a random sample of questionnaires collected in a house-to-house survey in the Mesopotamia neighborhood of Belize City suggests that more than half the residents rent. Rental agreements are generally made between people who are related by family ties or friendship. Owners rarely rent to strangers. The high degree of personal contact and accountability suggests that owners will accept the opportunity to improve rental housing.

### 3. Impact of the HG

a. Benefits. The proposed housing program responds to a need and demand for home improvements, offering loans through the credit unions system, which is the principal source of credit for median and below-median income households. The principal benefits are:

- o The increased possibility of getting a loan will encourage households to save because credit union savings are required to qualify for a loan.

- o Increased construction will increase employment opportunities for laborers and craftsmen.

- o The installation of plumbing to connect to the new water and sewerage system will improve sanitation in congested neighborhoods.

- o The repair of structural defects will result in safer households and fewer household accidents.



o Home improvement and expansion will help to satisfy aspirations for better shelter and a better way of life, mitigating major causes of dissatisfaction and high rates of emigration.

b. Spread Effects. The principal spread effects of the project are:

o Credit unions will be strengthened by the availability of more resources. This will encourage the use of credit unions and increase membership.

o Home improvement often is visible from the street. In a society of small size and personal contact, changes and additions to a house soon become known. Since these changes result in an improved quality of life, interest in home improvement grows. The improvement of one house on a street can lead to the upgrading of other houses and of an entire neighborhood. This kind of spread effect can change the cultural perceptions which currently contribute to poor maintenance.

o Improved plumbing will improve health and decrease the spread of disease. Tropical illnesses are debilitating. An improvement in sanitation and health will result in a more productive population.

E. Technical Feasibility

1. Project Delivery Process. Once the four establishing contracts are executed, the funds will flow in the following manner (see Diagram 1):

a. From the U.S. investor to the Government of Belize.

b. The Monetary Authority, as fiscal agent for the GOB, receives the U.S. Dollars and makes Belize dollars available to the DFC, which acts in its capacity of financial agent of the GOB for this project.

c. In accordance with contractually established criteria, DFC passes the money to the BCUL for utilization by the individual Credit Unions.

d. In accordance with contractually established criteria, BCUL on-lends to the individual credit unions and will act as an administrative agent for loans.

e. Credit unions, utilizing in-place procedures for establishing eligibility and creditworthiness, will work out the details of the loan with the individual below-median family income beneficiary.

f. DFC, in its capacity as implementing agency, will promote and process the loans to its below-median family income agricultural constituency.

g. Beneficiary will:

(1) If the planned modification does not involve structural modification or expansion of the floor space, obtain a budget estimate from a contractor.

(2) If the home improvement does involve structural modification and/or expansion of the floor space, will submit a plan for the approval of the Department of Housing and Town Planning or the Town Board. A written budget estimate must accompany the approved plans.

(3) Take the approved plan and written estimate to the credit union where loan is finalized and disbursement procedures established.

(4) Initiate construction. Disbursements usually will follow a pattern of up-front disbursement to commence, partial payments at previously established milestones, and final payment upon completion.

(5) Will submit to periodic credit union inspections to verify the utilization of funds and compliance with the approved plans.

(6) Repay the loan to the credit union according to the agreed terms.

h. Credit union repays its loan to the BCUL.

i. BCUL forwards required amount to the DFC for payment to the U.S. investor in accordance with the Loan Agreement. Reflows are then recycled back through the credit union system to finance additional home improvements.

j. DFC, in its capacity as the GOB's financial agent, receives funds from the BCUL and from its own home-improvement lending with the farm community and arranges the transfer of these funds to the U.S. investor.

2. Construction Sector Capacity. Construction sector capacity will not be strained by the proposed project.

a. Structure of the Sector. The construction sector consists of the private and public formal sector and the informal sector. The private formal sector operates almost exclusively on a custom, one-unit-at-a-time basis in

personal negotiations between the prospective owner and the contractor. Prospective home-owners typically contract for the construction of complete units, even for the lowest cost houses. There is little tradition, especially in towns, of incremental shelter solutions. In rural areas, the pattern also is for construction of complete houses even though they may be small and relatively simple; but construction at times does include some self help.

The DHP has been one of the main providers of housing in the public formal sector. Since 1978, it has produced a total of 216 houses -- 171 in Belize City. Building materials and techniques are largely traditional.

In Belize City, construction in the informal sector is confined to a very limited number of squatters. Virtually all of these units are built by their owners with little input from the formal sector.

b. Contractors and Labor. There are 25-40 firms and individuals throughout the country that can be considered to be active contractors at any one time. A fourth of this number is highly marginal and is active only intermittently. Any of these firms could manage the construction of one house. It is estimated that a construction project of up to 10 houses could be managed by any of 12-18 firms. Only about 8 to 10 firms could manage a construction project in the range of 100 to 125 housing units.

The largest percentage of these firms have between 5 and 12 permanent employees, with an average of 10. Each of these employees is skilled in one or more specific trades such as carpentry or masonry. One or two might be able to act to a limited degree in the capacity of a foreman or construction supervisor. Several contractors remarked that there is a shortage of people qualified to act as job foremen/construction supervisors.

It generally is felt that there are sufficient numbers of workers in each of the specific building trades. The only trade in which a shortage might develop if there were a significant increase in building activity would be carpentry. While the number of workers in the various trades may be sufficient, from the contractor's perspective the level of skills possessed by the average worker is low.

There are no construction trade unions in the country nor is there any association of building contractors.

c. Materials. Nearly all types of building materials are imported. This creates two major problems--high costs and irregular supply. Import duties add about 30% to landed costs. Contractors estimate that, before including profit margins, the material component in

construction will vary between 1/2 and 2/3 of the total cost of construction. For low-income construction, the figure would probably be near 60%.

Many of the building materials are imported from England, Europe, and the United States. Because Belize is a small market and because its port facilities are limited, the supplies from Europe are often transshipped in the United States.

#### F. Technical Assistance

1. Need for Technical Assistance. Belize is a newly independent nation with skeletal institutions and embryonic shelter sector policies. The institutions which do exist are in early stages of development. Little work has been done to strengthen their capacity or to rationalize their processes. In the housing sector, there is a lack of the background data and investigations which are prerequisite to the establishment of policies and practices that take into account the needs and preferences of the target group.

Technical assistance is required to assist in the development of information that can be used in the development of policy options. In addition to the sectoral issues, there is a need to strengthen the capacities of implementing institutions.

The Statutory Checklist covering this \$400,000 of grant funded assistance appears in the project paper for the \$10 million FY82 ESF for Belize. AID will provide up to \$400,000 in TA services to the MOF as the authorized agent, or grantee. Technical assistance services will be contracted to work with the DFC, BCUL, the credit unions, RECONDEV, the National Building Society, and other shelter institutions, using AID's standard contracting procedures.

T.A. is needed immediately to help the participating institutions promote the program and to assist the BCUL in improving its programming of the use of reflows. A resident technical advisor will coordinate these activities as well as the policy-related T.A. It can be seen in the description of the specific short-term T.A. which is proposed (see Section III-F-2 below) that the tasks constitute a detailed project preparation effort beginning with market research.

Construction costs in Belize are relatively high; target group income is relatively low. New housing for the target group in the future almost certainly will have to be nuclear housing rather than complete units. Low-income housing traditionally has been unaffordable, heavily subsidized, and produced in token amounts. A good deal of

research, experimentation, and consumer education will be necessary before new housing construction can be affordable to the target group.

Household surveys must be undertaken in order to establish what is acceptable to the consumer. Workshops are necessary in order to design acceptable incremental housing units. These designs likely will have to be adapted to the different cultural and ethnic zones in Belize. Prototypes must be built and field tested.

The GOB should implement its shelter activities within the framework of a national shelter sector policy. Existing and new institutions (the newly formed building society, for example) will require considerable T.A.

These needs underlie the T.A. which is required in order to prepare for future sector activities as well as to implement the presently proposed project.

2. Description of T.A. For project implementation and management, a resident technical advisor is needed for two years. The principal tasks of the advisor will be to provide policy advice to the GOB and to work with the BCUL and the DFC in implementing the program. Implementation will require close work with member credit unions throughout the country as well as liaison between the BCUL, the Holy Redeemer Credit Union, and the DFC. The advisor should be in country as soon as possible and before GOB borrowing in order to help coordinate the essential contractual arrangements between the participating institutions. (See Section E, below, "Conditions Precedent.") The technical advisor should have a working knowledge of credit union systems and experience in home improvement lending.

In addition to the resident technical advisor, short-term T.A. is needed for project implementation. This should include:

- o Programming of reflows by the BCUL (4 person months).
- o Initial promotion of the project with the DFC, BCUL, member credit unions, and the Holy Redeemer Credit Union (2 person months).

Policy-related T.A. also will be needed for Phase II activities. The T.A. should include:

- o Surveys to identify consumer preferences and priorities for incremental housing solutions (2 person months).

o Household surveys to establish fuller knowledge of the target group, including more precise estimates of household income distribution (2 person months).

o In collaboration with the Department of Housing and Town Planning, assistance in the development of prototype designs for low cost and/or partial housing solutions which take into account the preference and affordability levels of the target group (4 person months).

o Studies to arrive at alternative ways to mobilize domestic savings for a permanent housing finance source (3 person months).

o Assistance in the establishment, coordination and initial working of task force to develop a national housing policy (3 person months).

o Training in the areas of policy, management and implementation of appropriate Belizean housing officials in the U.S. and/or in third countries (3 person months).

o Other short-term T.A. totalling about 12 person months for such purposes as:

- (1) Assistance to the proposed building society.
- (2) Exploration of revitalizing the role of the DFC as a secondary mortgage market for credit unions.
- (3) Review of building codes, standards and related enforcement procedures.
- (4) Examination and improvement of debt collection record procedures, especially in the Department of Housing and Town Planning and RECONDEV.
- (5) Study of building materials appropriate for Belize.

PRE/HUD and Peace Corps and American Embassy officials in Belize have expressed the desire to have the Peace Corps involved in project TA. The Acting Peace Corps Director and the Director of the Department of Housing and Town Planning are discussing the possibility of placing a volunteer in the Ministry of Housing to assist in the series of steps required in the development of prototypes of affordable shelter solutions.

#### IV. PROJECT IMPLEMENTATION

##### A. Project Monitoring

PRE/HUD is responsible for HG Project Management and will undertake project monitoring. It has delegated authority for project implementation, review and approval of HG dis-

bursments to the Regional Housing and Urban Development Office for Central America (RHUDO). The RHUDO will coordinate project activities with the USAID representative for Belize.

B. Evaluation

Annual evaluations will be jointly conducted by AID, DFC, the BCUL, and the Holy Redeemer Credit Union. These regular evaluations will follow PRE/HUD guidelines. The project involves a line of credit to the credit union system and to the DFC rather than a predetermined site-specific approach to shelter production and improvement. The evaluations therefore will concentrate on the effectiveness of the process, linkages, and instruments developed.

Evaluations will aim at providing all program participants with the opportunity review program progress to date. This will include: participation in any reportioning of allocations which may be suggested based on real as opposed to anticipated demand; fine tuning at points of institutional interface, and/or redesign of documents and procedures being utilized.

C. Disbursement Procedures

Disbursement is expected to extend over a 24-month period. Initial disbursement can be an advance to accelerate project start-up, with subsequent disbursement made upon the presentation of documentation of loans authorized and eligible work in place consistent with normal practices and procedures of the credit unions and DFC respectively, and acceptable to AID.

Subject to the availability of funds, technical assistance disbursements can start prior to the final HG loan negotiations in order to permit the Resident Project Advisor and short-term specialists to assist the DFC, BCUL and individual credit unions finalize programming, prepare promotional materials and agreements required as conditions precedent to the loan.

D. Project Agreements

Prior to disbursement of the HG funds, the following agreements must be executed:

1. Implementation Agreement between AID, DFC and the BCUL detailing the procedures for project implementation reporting requirements, and the limitations on the uses of the HG funds.

2. Guaranty Agreement signed by AID, assuring the U.S. investor against loss.

3. Host Country Guaranty by which the Government of Belize provides a full faith and credit guaranty assuring AID against any loss.

4. Loan Agreement between the Government of Belize and the U.S. investor(s) establishing conditions of the lending.

E. Conditions Precedent

Prior to formalizing investor selection, AID will require that the following conditions be met:

1. Submission for approval by AID of a Project Delivery Plan prepared by the DFC and BCUL which details the project flow and disbursement schedule.

2. Formal agreement between the Government of Belize and the DFC establishing DFC's role as the financial agent of the government for purposes of the HG project.

3. Formal agreement between the DFC and the BCUL defining the conditions and procedures for disbursement by DFC to the BCUL, for repayments, for the processes and instruments to be employed to ensure repayment of the HG loan, and for satisfying the policy and objectives of the HG program.

4. Appropriate legislation must be in place raising the limit of the permissible lending rate of credit unions to 18%.

5. Preparation by the BCUL of the criteria and procedures for participation in the program by individual credit unions and a first-stage, system-wide allocation system. Both are products expected of the working committee which has been formed and includes participation by representatives of the individual credit unions (including Holy Redeemer) as well as officials of the BCUL.

6. Agreement by the GOB to assume the exchange risk.

F. Covenants

In the Implementation Agreement, the participating institutions will be required to covenant the following:

1. The BCUL will be responsible for initial project promotion and will inform all credit unions, including the Holy Redeemer Credit Union, of the opportunities, responsibilities, limitations, and other characteristics of the program.



2. The BCUL will agree to establish an interest-bearing account for the receipt of all subproject payments. The funds of the account will be used for payments to the U.S. investor via the DFC and for subsequent rounds of home improvement lending.

3. Onlending rates of these monies to the beneficiary will be the same from all the participating institutions for the first generation of loans.

4. If the HG loan bears a variable interest rate, the onlending institutions, while maintaining their spreads, may vary parri-passu the interest rate charged on new loans.

5. The credit unions will apply their best efforts to mobilizing domestic savings.

G. Implementation Schedule

Aug. 1982 - PP approved and authorized for \$2 million  
- Letter of advice to the GOB

Sep. 1982 - Short-term T.A. to BCUL for project promotion to Credit Unions and from Credit Unions to membership  
- Short-term T.A. to BCUL and DFC for preparation of the Project Delivery Plan and CP's.  
- Begin search for U.S. investor  
- Legislation passed which raises the interest rate ceiling for credit union lending.  
- Process for GOB guaranty set in motion.

Oct. 1982 - Resident Advisor contracted and in place start of Phase I T.A.  
- RHUDO, BCUL, Holy Redeemer and DFC negotiate and sign the Implementation Agreement  
- Master Project Delivery Plan is submitted and approved  
- Documentation, (e.g. applications, approved plans and budgets) for first disbursement submitted

Nov. 1982 - Guaranties and Loan Agreement signed  
- 1st Disbursement - Credit Union and DFC lending process triggered with first disbursement on individual beneficiary loans

Jan. 1983 - Start of Phase II T.A. - Market surveys to strengthen family income data and establish low income family shelter preferences of priorities

- Mar. 1983 - Documentation for second disbursement submitted
- Apr. 1983 - Phase II T.A. - Architectural design workshop to examine various solutions for incremental housing approach, folding in results of market preference surveys
- Apr. 1983 - Second Disbursement
- May 1983 - Phase II T.A. - Follow up on design workshop. Commence design of Belize low income housing prototype design
- Aug. 1983 - Phase II T. A. - Construction of model prototypes. Seek some sampling of potential market reaction.
  - Documentation for third disbursement submitted.
  - Evaluation
  - Recommendation for second phase HG project development.
- Nov. 1983 - Revise Project Delivery Schedule
  - Credit Union System Allocation Committee meets to review 12 month status, revises allocation of remaining funds as status to date indicates.
- Dec. 1983 - Third Disbursement
- Mar. 1984 - Documentation for final disbursement submitted
- Oct. 1984 - Final Disbursement
- Nov. 1984 - Final Evaluation

FOOTNOTES

I. SUMMARY AND RECOMMENDATION

<sup>1</sup>The Belize dollar is tied to the U.S. dollar. The exchange rate is Bze\$1.00 = US\$0.50. The GOB could incur a foreign exchange loss if it devalues its currency. The openness of the economy and its close ties to the U.S. economy as well as to the U.S. dollar render this risk minimal.

<sup>2</sup>Legislation is before the House of Representatives to convert the Monetary Authority into a Central Bank, retroactive to 4 January 1982.

<sup>3</sup>The Ordinance regulating the operations of the Monetary Authority restricts its dealings to "banking institutions" as defined in the Ordinance Regulating Banking Business (No. 13 of 1976). Officials at the Monetary Authority pointed out that credit unions do not qualify as "banking institutions" under the Ordinance. The Ordinance could be changed; but it is significant that this reveals the preferences of the Monetary Authority also to deal through the DFC.

<sup>4</sup>The Monetary Authority has local currency accounts and foreign exchange accounts. Domestic inflation is related directly to the demands on its local currency account and its local currency resources. The effect of the local currency HG equivalent withdrawal from its local currency account on the balance in the account will be undistinguishable from the overall demands on the account. Inflationary pressures will result from the much larger overall GOB demands for deficit financing from the account.

II. PROJECT DESCRIPTION

<sup>1</sup>Average household size is just over five nationwide; however, in Belize City household size is usually between seven and nine persons for the target group.

<sup>2</sup>The interest rate to the beneficiary may be less than 18%, depending on the terms negotiated with the U.S. lender.

<sup>3</sup>A committee of BCUL credit union officials and officials of the Holy Redeemer Credit Union has been constituted to survey the demand for HG funds and to agree upon initial allocations of HG funds to individual credit unions. Reserved allocations to individual credit unions which are

not committed within 12 months will revert to a common pool. The pool will be made available on a first-come-first-serve basis.

### III. PROJECT ANALYSIS

<sup>1</sup>This section draws heavily on the recent World Bank Economic Memorandum on Belize, dated April 5, 1982.

$$^2(1.3)(0.9)(60) + (0.1)(60) + 40 = 116.2$$

<sup>3</sup>These would be the principal adjustments to financial costs and benefits which would be necessary for an economic analysis. There are no domestic taxes. The market price of construction labor reasonably reflects its scarcity value. The exchange rate is not grossly undervalued nor overvalued.

<sup>4</sup>The IFRR for a net benefit stream of (-100) followed by (+30) for 6 years is 19.9%. The corresponding IERR, based on a net stream of (-86.2) and (+34.5) for 6 years, is 32.7%. This is 1.64 times the IFRR.

UNCLASSIFIED  
Department of State

ANNEX 1  
OUTGOING  
TELEGRAM

PAGE 01 STATE 150305

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STATE 150305

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ORIGIN OFFICE LAC-01  
INFO AALA-01 LADP-03 PPCE-01 PDPR-01 PPPB-03 GC-01  
GCFL-03 FM-02 HO-04 EAST-01 FHLB-01 HUD-02  
MST-01 MAST-01 /035 AB  
OCT-01 INR-18 EB-08 ARA-16 AMAD-01 /071 R

APPROVING HG FINANCING WILL BE THE ACTION OF GOD TO DEAL WITH INTEREST RATE CEILINGS SUCH THAT CREDIT UNIONS CAN EFFECTIVELY COMPETE IN COMMERCIAL CAPITAL MARKETS. THE PP SHOULD CAREFULLY EVALUATE THE IMPLICATIONS OF INTEREST RATE POLICIES AND THEIR IMPACT ON HOUSING AND THE COUNTRY'S FINANCIAL STRUCTURE GENERALLY.

DRAFTED BY AID/LAC/DR: BBURNETT:ATB  
APPROVED BY AID/AA/LAC: OREICH  
AID/LAC/DR: L'ARMSTRONG (DRAFT)  
AID/LAC/DR: CLEONARD (DRAFT)  
AID/LAC/DR: ACAUTERUCCI  
AID/LAC/DR: LEVY  
AID/LAC/CAR: SMERRILL (DRAFT)  
AID/AA/CAR: DHOLM  
AID/LAC/DP: DIRBE (DRAFT)  
AID/GC/LAC: BVERET (DRAFT)  
AID/PRE/V PETERSON (DRAFT)  
AI /PRE/ : JHOWLEY (DRAFT);  
AI /LAC/DR/MAD TMCJEE (DRAFT)  
A-D/OAA/LAC: MBROWN

3. INSTITUTIONAL ARRANGEMENTS AND ANALYSIS:

A. ADMINISTRATIVE STRUCTURE: THE PID INDICATES THAT THE MINISTRY OF FINANCE WILL BE THE BORROWER, THE DEVELOPMENT FINANCE CORPORATION (DFC) WILL ADMINISTER THE LOAN AND ON LEND TO RURAL HOMEOWNERS AS WELL AS TO THE BELIZE CREDIT UNION LEAGUE (BCUL) AND INDIVIDUAL CREDIT UNIONS OUTSIDE THE LEAGUE. THE BCUL WILL, IN TURN, ONLEND TO MEMBER CREDIT UNIONS FOR FINANCING HOME IMPROVEMENT LOANS. EMBASSY SHOULD REVIEW THIS ADMINISTRATIVE ARRANGEMENT WITH VIEW TO MINIMIZING ADMINISTRATIVE CHANNELS AND PROCEDURES IN ALLOCATING FUNDS FOR ELIGIBLE SUBLOANS. FOR EXAMPLE, IF MINISTRY OF FINANCE (MOF) ADMINISTERED LOAN, BCUL AND OTHER FINANCIAL INSTITUTIONS COULD BORROW DIRECTLY FROM MOF.

B. INSTITUTIONAL ANALYSIS: FURTHER INFORMATION IS REQUIRED ON THE QUALIFICATIONS OF THE DFC AND INDIVIDUAL CREDIT UNIONS FOR MANAGING CREDITS OF THE TYPE ENVISIONED. PP SHOULD EXAMINE (I) LENDING HISTORIES OF THESE INSTITUTIONS, (II) FINANCIAL STATUS AND (III) TECHNICAL CAPACITY (E.G. CREDIT ANALYSIS, ENGINEERS) FOR EVALUATING SUB LOAN PROPOSALS OF THE TYPE ENVISIONED. EMBASSY SHOULD CONSIDER ESTABLISHING CRITERIA FOR PERMITTING INDIVIDUAL CREDIT UNIONS TO PARTICIPATE IN PROJECT. PP SHOULD ALSO DISCUSS CONSTRUCTION CODES AND STANDARDS IN BELIZE AND

HOW THEY WILL BE APPLIED/ENFORCED UNDER PROJECT.

4. EFFECTIVE DEMAND: SINCE PUBLIC INSTITUTIONS IN BELIZE HAVE TRADITIONALLY SUBSIDIZED LOW INCOME HOUSING, AND CREDIT UNIONS HAVE RECENTLY BEEN CHARGING NO MORE THAN 12 PERCENT FOR HOME IMPROVEMENT LOANS, INTENSIVE REVIEW SHOULD CLOSELY EXAMINE EFFECTIVE DEMAND FOR HOME IMPROVEMENT CREDITS OFFERED AT THE HIGHER RATES REQUIRED UNDER THE PROJECT.

5. TECHNICAL ASSISTANCE COMPONENT: THE PROPOSED LEVEL OF TECHNICAL ASSISTANCE IS QUITE LARGE IN RELATION TO TOTAL PROJECT. ALSO, AVAILABILITY OF GRANT FUNDING FOR TA CANNOT BE ASSURED AT THIS POINT SINCE NO BUDGET ALLOCATION HAS BEEN MADE FOR THIS ACTIVITY. INTENSIVE REVIEW SHOULD CAREFULLY REASSESS TA REQUIREMENTS AND THE IMPLICATIONS OF SUCH TA ON THE PROJECT'S ECONOMIC FEASIBILITY. BUREAU PREPARED TO PROVIDE ASSISTANCE WITH THE ECONOMIC ANALYSIS IF EMBASSY DESIRES.

6. FYI: ALL LAC MISSION PID APPROVALS ARE SUBJECT TO REVALIDATION IF POST-PID PROJECT DEVELOPMENT EXTENDS BEYOND ONE YEAR. END FYI. STOESEL

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TO AMEMBASSY BELIZE  
INFO AMEMBASSY BRIDGETOWN  
AMEMBASSY PANAMA

UNCLAS STATE 150305  
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AIDAC - PANAMA (FOR RHUDD)

C.O. 12065: N/A  
TACS:

SUBJECT: BELIZE PRESERVATION OF EXISTING HOUSING STOCK PID

SUMMARY: THE BUREAU'S DAEC REVIEWED THE SUBJECT PID MAY 12, 1982. THE PID IS APPROVED AT THE DOLLARS 2 MILLION IN HG LOAN FINANCING LEVEL AND, SUBJECT TO THE AVAILABILITY OF FUNDS, UP TO DOLLARS 488,000 FOR TECHNICAL ASSISTANCE FROM FUNDS ALLOCATED FOR BELIZE IN THE CBI SUPPLEMENTAL. (WE ASSUME THE USE OF CBI FUNDS FOR THIS PURPOSE IS ACCEPTABLE TO EMBASSY.). THE FOLLOWING CONCERNS SHOULD BE ADDRESSED DURING PP PREPARATION:

1. PROJECT STRATEGY:

A. PROJECT PRIORITY: BUREAU UNDERSTANDS THAT BOTH EMBASSY AND TOP GOB OFFICIALS PLACE A HIGH PRIORITY ON UPGRADING LOW INCOME HOUSING STOCK IN BELIZE. LACKING A CDSS FOR BELIZE, PP SHOULD CLARIFY PROJECT'S PRIORITY IN RELATION TO BOTH AID'S AND GOB'S STRATEGIES FOR ADDRESSING COUNTRY'S OVERALL DEVELOPMENT NEEDS.

B. NEED FOR MOBILIZING DOMESTIC SAVINGS: CENTRAL

TO THE LONG-TERM VIABILITY OF THE BELIZE HOUSING MARKET IS THE NEED FOR GENERATING AND TAPPING DOMESTIC SAVINGS. AS NOTED IN PID, CURRENT REGULATIONS GOVERNING CREDIT UNION OPERATIONS CONSTRAIN EXPANSION HOUSING MARKET ACTIVITIES BY PLACING A CEILING OF 6 PERCENT INTEREST PAYABLE ON SAVINGS AND 12 PERCENT INTEREST CHARGEABLE ON LOANS. SUCH A RATE STRUCTURE IS WELL BELOW COMPARABLE COMMERCIAL MARKET RATES AND, FURTHER, WOULD FORCE THE GOB TO SUBSIDIZE THE PROPOSED HG FINANCING. AN ESSENTIAL CONSIDERATION FOR

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Life of Project  
From FY 82 to FY 84  
Total U.S. Funding \$ 2,400,000  
Date Prepared: 5/7/82

INSTRUCTIONS: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE FAR REPORT. IT NEED NOT BE RETURNED OR SUBMITTED.

Project Title & Number: Home Improvement Project Belize-005-11G-001

PAGE 1

NARRATIVE SUMMARY

Program or Sector Goal: The broader objective is which the project contributes: (A-1)  
Improved shelter conditions for low-income households in Belize as a result of coordinated policies and programs which promote private sector investment in low cost shelter solutions and upgrading of the nation's housing stock.

OBJECTIVELY VERIFIABLE INDICATORS

- Measures of Goal Achievements (A-2)
- Existence of a National Housing
  - Increase in number of Belizean families with improved sanitary services
  - Progressive improvement in quality of housing stock.

MEANS OF VERIFICATION

- (A-3)
- GOB budgets policy documents and economic development plans.
  - National census statistics and periodic shelter related surveys

IMPORTANT ASSUMPTIONS

- Assumptions for achieving goal targets: (A-4)
- No severe hurricane damage
  - Continued GOB support of housing programs to low income families.
  - Increased private sector participation in the financing and construction of housing.

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 WORK SHEET 1

**PROJECT DESIGN SUMMARY  
 LOGICAL FRAMEWORK**

Project Title & Number: Home Improvement Project Belize-005-IG-001

Life of Project:  
 From FY B2 to F B4  
 Total U.S. Funding \$2,400,000  
 Date Prepared: 12/87

PAGE 2

DESCRIPTIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS <small>Conditions that will indicate purpose has been achieved: End-of-Project status. (B-2)</small>	MEANS OF VERIFICATION <small>(B-3)</small>	IMPORTANT ASSUMPTIONS <small>Assumptions for achieving purposes: (B-4)</small>
<p>1. Stimulate local credit institutions to undertake major increased shelter credit activities and to strengthen the institutional capacity of the local credit union system.</p> <p>2. Support and expand private sector participation in the financing and construction of shelter.</p> <p>3. Preservation of the housing stock.</p> <p>4. Assist COB rationalize its housing delivery system by focusing on R &amp; D of affordable prototypical solutions, rather than to producing and subsidizing standard housing.</p>	<ul style="list-style-type: none"> <li>- Increase in home improvement lending activities by individual Credit Unions and DFC over last two year period.</li> <li>- Home improvements completed for at least 1,300 below median income households.</li> <li>- BCUL has commenced recylcling all reflows.</li> <li>- Consumer preference and household income surveys have been conducted; architectural design workshops for a range of low-cost solutions; alternative prototype models developed.</li> <li>- Existence of a working task force on national housing policy.</li> </ul>	<ul style="list-style-type: none"> <li>- DFC records</li> <li>- Credit Union Records</li> <li>- PRE/NUD's evaluations</li> <li>- Technical Assistance consultants reports.</li> <li>- Consumer preference and household surveys.</li> </ul>	<ul style="list-style-type: none"> <li>- GOB continues to support programs for development of solutions affordable by below median income families.</li> </ul>

Life of Project  
From FY B2 to FY B4  
Total U.S. Funding 2,400,000  
Date Prepared: 6/7/87

PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Project Title & Number: Home Improvement Project Belize-005-IIG-001

PAGE 3

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Outputs: (C-1)</p> <ol style="list-style-type: none"> <li>Home Improvement financing to target group.</li> <li>Effective private institutions operating in this shelter area.</li> <li>Technical Assistance provided.</li> </ol>	<p>Measurable Outputs: (C-2)</p> <ol style="list-style-type: none"> <li>Approximately 1,300 home improvement loans, (list round) nationwide to families with below median incomes.</li> <li>At least 80% of loans to be made through existing credit union system.</li> <li>Resident Advisor in place and short-term TA ongoing</li> </ol>	<p>(C-3)</p> <ol style="list-style-type: none"> <li>DFC and credit union credit application and loan disbursement records.</li> <li>Technical assistance consultant reports and resident advisor progress reports.</li> </ol>	<p>Assumptions for achieving outputs: (C-4)</p> <ol style="list-style-type: none"> <li>GOB borrows funds.</li> <li>Credit Unions participate in program by target group.</li> <li>Effective demand for home improvement loans at as high as 18% exists.</li> </ol>



PROJECT DESIGN SUMMARY  
LOGICAL FRAMEWORK

Life of Project: From FY B2 to FY 84  
Total U.S. Funding 2,400,000  
Date Prepared: 5/78

PAGE 4

Project Title & Number: Home Improvement Project Belize-005-IG-001

NARRATIVE SUMMARY Project Inputs: (D-1)	OBJECTIVELY VERIFIABLE INDICATORS Implementation Target (Type and Quantity) (D-2)	MEANS OF VERIFICATION (D-3)	IMPORTANT ASSUMPTIONS Assumptions for providing inputs: (D-4)
<ol style="list-style-type: none"> <li>1. HC loan.</li> <li>2. Grant for Technical Assistance</li> </ol>	<ol style="list-style-type: none"> <li>1. \$2 million</li> <li>2. \$400,000</li> </ol>	<p>Project records.</p>	<ol style="list-style-type: none"> <li>1. U.S. investor can be found.</li> <li>2. GOB provides full faith and credit guaranty.</li> <li>3. GOB legislation establishing an 18% interest rate ceiling for credit union home improvement lending.</li> <li>4. Technical Assistance funds authorized and Technical Assistance personnel available.</li> <li>5. Agreements between:               <ol style="list-style-type: none"> <li>1) DFC and GOB authorizing DFC to act as GOB's financial agent.</li> <li>2) DFC and Credit Union system for establishing BCUL accounts for HC funds and the procedures for drawing and reimbursing the account.</li> </ol> </li> <li>6. Establishment of criteria for allocation of funds among Credit Unions.</li> </ol>



*Please Quote*

*Office Of The Prime Minister*

*Belmopan,  
Cayo District, Belize  
Central America  
June 30, 1986*

His Excellency  
Mr. Malcolm R. Burnehey  
United States Embassy  
Belize City

Dear Excellency,

Belize needs to improve housing for its citizens. The Government of Belize through policy and action wants to assist low income groups to improve their living conditions and, over time, to put in place mechanisms to this end.

We need help in this area. AID can help us with technical assistance looking to long-term solutions. In the short term AID can assist in providing credit for home improvement activities of high priority.

We have been discussing a programme with the representatives from AID you so kindly brought here. We contemplate a programme of credit for home improvements which would be financed through the housing guaranty mechanism and made available to eligible families at market rates of interest.

This programme would utilize the credit unions and the Development Finance Corporation as intermediate credit institutions. The Government of Belize proposes to borrow \$2 million (U.S.) from a U.S. lender and is prepared to guarantee the loan. We specifically request your support of a housing guaranty and the provision of technical assistance.

I would appreciate it if you would request that USAID expedite the negotiation of this project.

Sincerely, *George Price*  
George Price, Prime Minister.

## THE HOUSING GUARANTY PROGRAM

STATUTORY CHECKLISTNAME OF COUNTRYPROJECT NO. 505 HG001

ANSWER YES OR NO PUT  
PP PAGE REFERENCES  
AND/OR EXPLANATIONS  
WHERE APPROPRIATE

## A. General Criteria Under HG Statutory Authority.

Section 221(a)

Will the proposed project further one or more of the following policy goals?

(1) is intended to increase the availability of domestic financing by demonstrating to local entrepreneurs and institutions that providing low-cost housing is financially viable;

Yes

---

(2) is intended to assist in marshalling resources for low-cost housing;

Yes

---

(3) supports a pilot project for low-cost shelter, or is intended to have a maximum demonstration impact on local institutions and national; and/or;

Yes

---

(4) is intended to have a long run goal to develop domestic construction capabilities and stimulate local credit institutions to make available domestic capital and other management and technological resources required for low-cost shelter programs and policies?

Yes

---

Section 222(a)

Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time to be in excess of \$1,555,000,000?

No

---

Will the guaranty be issued prior to September 30, 1982?

Yes

---

Section 222(b)

Will the proposed guaranty result in activities which emphasize:

(1) projects providing improved home sites to poor families on which to build shelter and related services; or

No

(2) projects comprised of expandable core shelter units on serviced sites; or

No

(3) slum upgrading projects designed to conserve and improve existing shelter; or

Yes

(4) shelter projects for low-income people designed for demonstration or institution building; or

Yes

(5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor?

No

Section 222(c)

If the project requires the use or conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible?

Not Applicable

Section 223(a)

Will the A.I.D. guaranty fee be in an amount authorized by A.I.D. in accordance with its delegated powers?

Yes

Section 223(f)

Is the maximum rate of interest allowable to the eligible U.S. Investor as prescribed by the Administrator not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development?

Yes

Section 223(h)

Will the Guaranty Agreement provide that no payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible?

Yes

Section 223(j)

(1) Will the proposed Housing Guaranty be coordinated with and complementary to other development assistance in the host country?

Yes

(2) Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of housing and other institutional arrangements?

Yes

- 3 -

(3) Is the project designed and planned by A.I.D. so that at least 90 percent of the face value of the proposed guaranty will be for housing suitable for families below the median income, or below the median urban income for housing in urban areas, in the host country?

Yes

---

(4) Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed \$25 million in any fiscal year?

No

---

(5) Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed \$15 million?

No

---

Section 238(c)

Will the guaranty agreement provide that it will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued?

Yes

---

Criteria Under General Foreign Assistance Act Authority.

Section 620/620A

1. Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year?

Yes

---

2. Is there any reason to believe that circumstances have changed in the host country so that it would now be ineligible under the country statutory checklist?

No

---

ANNEX 6

The Building Code:  
Regulations and Enforcement

The Government of Belize adopted the "Belize Building Regulation" (BBR) in the early 1970s. The BBR is a stripped down version of the South Florida Building Code, which is a performance and specification code of the minimum requirements for materials and construction techniques applicable to the hurricane-prone countries of Dade and Broward.

The Belize version is designed as a life-safety code. It specifies the minimum requirements for building materials such as timber, concrete, aggregate, metal roofs and reinforcing bars, and for construction procedures. For example, at least pine or secondary hardwoods of a particular dimension are required for joists. Certain grades of concrete are acceptable. Galvanized iron roofing, but not aluminum roofing, is acceptable against the high wind loads.

The BBR specifies that piles be sunk to 22 feet below grade and that excavation be a minimum of 18".

Residential construction is not so closely monitored as institutional or industrial building. Only buildings of three stories or higher require engineered drawings. Few houses exceed two stories. For houses, only modifications of structural importance, such as the replacement of supporting piers or the expansion of floor area, require approval. For these specific residential modifications, drawings by a contractor or a draftsman suffice; engineered drawings are not necessary. There is no licensing procedure for contractors or draftsmen.

The approval process depends on the availability of the Director of the Department of Housing and Town Planning. He is a registered engineer and has one other professional assistant. Between them they approve and to some degree monitor approximately 100 construction plans and jobs a year.

The Director's primary concern, however, is not residential construction but rather the construction of public buildings such as schools, factories and offices where the safety of larger numbers of people is concerned.

The Director has no practical opportunity to require or enforce compliance with codes in the construction of private houses.

The building code includes some requirements that are unenforceable. The setback requirements for construction state that a building must not be built less than 12' from the lot line, and not less than 10' from another building. In neighborhoods where the original 50'x100' lot has been inherited by several family members, however, no individual lot lines are drawn; and semi-attached out-buildings are a cultural norm. Setback requirements as they are written are not relevant to the Belize situation.

#### Other Codes

There is no electrical code as such, but only licensed electricians can wire a building. It is then inspected by an official from the electric company before the house is connected to the main. The electric wiring requirements therefore are relatively well enforced, and the process is practical because the electric board has control over the connection.

There is no plumbing code, and plumbers are not licensed. The CIDA-Belize water and sewer project however, is attempting to write a plumbing code to control connection of house plumbing to the water and sewer mains. By financing house connections to the new water and sewer system, this project should encourage efforts to formalize a plumbing code.

Corozal Town and Dangriga have the only other planning offices in the country. In Corozal the manager is not an engineer but a construction foreman. In Dangriga the position of manager has not been filled.

In summary, there is some control of electrical wiring and a plumbing code is contemplated. As in most of the developing world, however, building codes are not enforced for home improvements.

DFC: Summary Financial Statement and Operating Statistics, 1978-1981

(US\$ 000s)

A. Balance Sheet

	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>
<u>Assets</u>				
Liquid Funds	275	251	401	488
Equity Investments	1,022	984	666	791
Subloans	12,032	9,617	7,549	6,842
Other Assets	<u>1,459</u>	<u>1,164</u>	<u>1,302</u>	<u>787</u>
Total	14,788	12,026	9,918	8,908
<u>Liabilities</u>				
Medium & Long-term Debt	10,748	8,819	6,980	6,179
Capital & Reserves	2,093	1,938	1,843	1,572
Other Liabilities	<u>1,947</u>	<u>1,269</u>	<u>1,095</u>	<u>1,157</u>
Total	14,788	12,026	9,918	8,908

B. Income Statement

Income

Loans	508	725	514	475
Bank Deposits	33	27	36	25
Investments	89	93	77	79
Agricultural Credit Fund	350	3	1	2
Government Contribution	6	25	50	50
Other	<u>78</u>	<u>60</u>	<u>60</u>	<u>23</u>
Total	1,064	933	738	654

Expenses

Salaries	291	298	251	202
Interest	248	297	233	180
Reserves for Losses	54	51	36	25
Other	<u>378</u>	<u>226</u>	<u>200</u>	<u>149</u>
Total	972	872	720	556

<u>Net Income</u>	92	61	18	98
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Holy Redeemer Credit Union  
Summary Financial Statistics, 1978-1981  
(US\$ 000s)

## A. Balance Sheet

	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>
<u>Assets</u>				
Cash	106	176	123	133
Loans	6,072	5,723	5,303	4,470
Investments	540	427	292	275
Other Assets	23	25	33	29
Total	<u>6,741</u>	<u>6,351</u>	<u>5,751</u>	<u>4,907</u>
<u>Liabilities</u>				
Deposits	3	10	7	9
Share	5,059	4,890	4,458	3,912
Dividends Payable	441	503	403	306
Rebates Payable	23	28	15	-
Earnings & Reserves	1,206	913	800	674
Other Liabilities	9	7	68	6
Total	<u>6,741</u>	<u>6,351</u>	<u>5,751</u>	<u>4,907</u>

## B. Income Statement

<u>Income</u>				
Loans	448	458	409	373
Investments	77	46	24	11
Other	4	3	5	5
Total	<u>529</u>	<u>507</u>	<u>438</u>	<u>389</u>
<u>Expenses</u>				
Salaries & Wages	62	61	39	37
Insurance	47	43	29	32
Other	26	22	24	17
Total	<u>135</u>	<u>126</u>	<u>92</u>	<u>86</u>
<u>Net Income</u>	394	381	346	303

BCUL Membership and Financial Statistics  
(US\$'000s)

	December 31				
	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>
Membership (Number)	12,382	12,183	11,463	10,692	10,975
Savings	1,880.0	1,708.7	1,591.2	1,305.8	1,031.1
Loans Outstanding	1,775.8	1,659.3	1,508.3	1,237.1	984.3
Reserves	85.9	96.7	87.4	78.4	84.7
Assets	2,093.6	1,892.5	1,782.1	1,455.7	1,171.9

### Cash Flow Analysis

A cash-flow analysis of the project shows that the financial intermediaries (FIs), the credit unions and the DFC, will have large and mounting sums available from reflows.

The beneficiary pays, for example, 18% p.a. This covers all of the FIs intermediation costs as well as the costs of servicing the HG loan. The FI receives full payment of principal and interest without any grace period from its subloans. This yields a surplus above HG-loan servicing requirements which the FI can relend. The amounts of potential reflows are impressive. With proper management, the DFC and the credit unions can use the HG loan to maintain indefinitely a significantly higher volume of lending for home improvements.

The illustrative cash flow analysis assumes:

- a. Interest costs of 18% p.a. to the beneficiary. This consists of 14.5% to the U.S. investor, 0.5% to AID, and 3% FI intermediation costs.
- b. AID also has a 1% front-end fee of \$20,000.
- c. The HG loan is for 30 years with 10 years of grace.
- d. Subloans are for 5 years with no grace period.
- e. 40% of the HG is drawn-down during the first year and the balance in the second year.
- f. Reflows are lent immediately.
- g. Loan servicing of both the HG and the subloans are annual.

The calculations are available in PRE/HUD. For 12 rounds of relending from subloan reflow payments, a period which completely amortizes the 30-year HG loan, the annual amount available from reflows (net of HG-loan servicing) exceeds \$1.0 million in year 13 and peaks at \$3.3 million in year 22.

*unrealistic -  
should be  
monthly*

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I. Population

According to the 1980 census, the population of Belize is 145,353, with a growth of only 1.9% during the previous decade. Approximately half the population lives in six small towns and in Belize City, which has a population of about 40,000. The rest live in villages and single settlements in the interior where the economy is largely agricultural. Belize is the most sparsely populated country in Central America.

A. Demographic Shift

It is estimated that approximately 3,000 immigrants from other Central American countries enter annually. This apparent growth, however, is offset by the approximately 4,500 Belizeans who leave Belize each year to live in the United States, and an undetermined number who emigrate to other countries. Of those who emigrate to the United States, approximately 2,500 qualify as legal immigrants, approximately 1,000 enter the United States on tourist visas and stay on, and perhaps 1,000 enter illegally. Speculation is that 50,000 Belizeans, 29% of the total Belizean population, live in the United States.

Consequently Belize has a slow rate of population growth despite a relatively high birth rate of 3.68%. Shortfalls in the housing stock appear to be due to demographic shifts and deteriorating housing rather than to population increase. Lack of opportunity to acquire housing, as well as unemployment (which is as high as 40% in Belize City) are frequently given as reasons for the high rate of emigration.

B. Cultural Heterogeneity

Belizeans are a mosaic of culturally and racially distinct peoples. Each of the six districts has its own ethnic personality: Belize City and District is predominately Black; Corozal and Orange Walk Districts predominately Mayan and Latin; Stann Creek predominately Black; and Cayo and Toledo Districts are predominately Mayan. Throughout the country small populations of Europeans, East Indians, Chinese and Lebanese are influential. Approximately one-third the population is of culturally or racially mixed descent.

The cultural heterogeneity results in a variety of living patterns, house types, and degree of involvement in cultural and financial institutions.

C. Size of Household

The average size of household varies according to ethnic custom and economic necessity, but it is estimated that the average size of household is 5.2 persons nationally and 7.4 persons in poorer families, resulting in approximately 28,000 households nationally and 8,500 in Belize City.

The greater size of poorer households is due to a greater socio-economic dependence on the extended family and the inclusion of elderly parents and lateral kin. It is not uncommon for men to father several families, resulting in a high incidence of households headed by women, particularly in Belize City.

II. Income Levels of Below Median Income Families

A. Distribution of Income

In the absence of firm income data, the recent estimate of \$5,000 as the average household income is supported by a sample survey conducted in 1981 that presented an average household expenditure of \$4,387 nationwide and \$4,794 in Belize City.

Household wealth as measured by expenditure varies considerably nationwide:

	1980 Population	1981 Households	1981 Household Consumer Exp.
Belize District	39,771	8,437	\$4,794
Corozal District	22,902	4,056	\$5,835
Orange Walk District	22,870	4,003	\$4,505
Stann Creek District	14,181	2,934	\$3,137
Toledo District	11,762	2,289	\$2,669
Cayo District	22,837	4,196	\$4,332

Annual median household income is estimated to be \$3,500. 30% of all families have incomes below the poverty level of \$2,400.

B. Sources of Income

Although the majority of income is earned locally, remittances to relatives from Belizeans living in the United States is another important source. It has been estimated that \$20 million is remitted annually, providing an average increment of \$715 to each household in Belize. However, considering that 70% of all legal and illegal emigrants to the United States are from lower-income families,

remittances may have a higher benefit to the families below the median income than to the population as a whole.

Windfall income from the national lottery is often cited as the financial impetus for home improvement construction.

The Belizean family customarily protects its investment in a house by insuring it against destruction. Most houses, even in poor neighborhoods, are insured for at least \$5,000 against fire damage.

### III. Living Conditions of the Poor in a Typical Belize City Neighborhood

The Mesopotamia neighborhood of the south side of Belize City illustrates the causes of the deterioration of the housing stock, the need for home improvement, and the reasons for confidence that there will be a demand for home improvement loans.

The population of Mesopotamia is estimated to be 4,213 people, slightly more than 10% of the population of the total city. According to the Water Authority survey, 1,611 are adults, 1,870 are children. A random sample analysis of the questionnaires filled out in 83 households listed 42 households headed by women, of whom 15 were owners and 27 renters. This population differential between adults and children between male and female heads of household, and between owners and renters, is probably typical of the below median income neighborhoods in Belize City.

The site that became Mesopotamia was an urban fringe area selected for settlement at the end of World War I. The swamp between the mainland and the central business district was filled in and laid out for the purpose of settling Creole veterans of the Belizean unit that had served in the war in Egypt and Mesopotamia.

The site was not chosen voluntarily or spontaneously by the original settlers, and the decision to fill land for their settlement was political, not geological. The filled land is a packed sand and dirt surface with a shifting subsurface of sand and silt. Base rock is perhaps as much as 20 feet below grade. The sub-surface is saturated, so absorption is minimal and the site is vulnerable to flooding.

Despite its unstable beginnings, the neighborhood grew with considerable coherence between two wide drainage canals that border its east and west sides.

### A. Typical Housing

Families build individual houses which are expanded or supplemented by additional separate buildings as the extended family grows. Being poor, they construct lightweight, inexpensive timber houses. Because the site is vulnerable to flooding, they construct the houses in a typical coastal Belizean style on timber stilts that raise the house from 3 feet to 10 feet above grade. These posts, or stilts, raise the living area above flood level, maximize the breeze through louvered windows, and bring relief from insect pests and vermin. Optimally, the houses are clean, cool, and dry.

A typical house is a single room structure averaging 18 feet by 24 feet with interior partitions dividing the room into smaller parts. The ground under the raised living area provides a shaded breezeway.

The house is roofed with corrugated iron sheets fastened with nails to a timber frame in either a low gable or hip (four sided gable) configuration that is resistant to high winds. The metal roof provides catchment for rainwater that is transferred by gutters and pipes to a wooden vat for household use in the absence of piped water. There are some standpipes in Mesopotamia, and with the completion of the Canadian-Belize Water & Sewerage Project, individual house hookups to a central water supply will be available.

In the absence of septic tanks, and until the completion of the new sewer line, the people use bucket latrines that are emptied into the canals, or the public latrines that are cantilevered over the canals.

### B. Relationships within the Neighborhood

Families were originally allotted plots of land in Mesopotamia that averaged 50' x 100'. As shares of the original lots were inherited by members of the family, who in turn built additional houses, the configuration of the lot came to resemble the yards, or compound settlements, of Kingston and other Caribbean cities. Yards are densely populated blocks in which houses are built behind the street-front houses. Usually there is some relationship that unites the occupants of a yard.

When parts of a yard are sold, or a house on a yard is rented, rarely is the new occupant a stranger. Whether through consanguinity or affinity, the settlement remains interrelated.



The Water Authority's house-to-house survey, which is one of the few sources of disaggregated statistical data in Belize City reveals that several consecutive houses, or several houses on one side of the street, will be owned in the name of one person, who then rents out space to other people. More than half the people who responded, in a random check of the Water Authority survey, described themselves as renters. The general perception is that the owner-renter relationship is familial rather than a business deal.

As evidence of the cohesion of the Mesopotamia neighborhood and the degree of personal relationship, the neighborhood organized a fundraiser in June, 1982 to assist the victims who had lost their homes in a fire in May, 1982. Other evidences of cohesion are that the area votes fairly consistently for one party, and there is a Mesopotamia Credit Union.

Mesopotamia is only a typical example of a below median income neighborhood with an evident and felt need for housing improvements. Similar conditions exist throughout Belize City and in other major towns.

#### IV. Credit Unions

An average of \$152.00 per member household is invested in the purchase of shares in Belize's 23 credit unions. These cooperatives, in which members pool their savings in order to lend money among themselves, have become essential to the way of life of middle and lower income families.

##### A. Cultural Acceptability of Credit Unions

The formal credit union movement is forty years old in Belize. It has been highly successful because it responds to the need for credit in a way that is culturally compatible with a long Caribbean-Creole tradition of mutual-aid societies. Creditworthiness is assessed in part on the basis of peer perception of character. One's reputation, or character, is established through years of personal business dealings in which one's resources and record of responsibility are well known among a small and interrelated group of people.

##### B. Membership in Credit Unions

Approximately 32,000 Belizeans belong to 23 credit unions. In the past, membership was limited to those who qualified by the bonds of membership of the credit union. These bonds include religious affiliation, residence in the neighborhood, or occupation. Bonds are considerably more flexible now. For the most part, membership is open.

Nonetheless, there is a strong sense of unity within a credit union and a sense of loyalty that may last a lifetime. Belizeans open share accounts in their children's names as well as in their own, and tend to maintain their accounts throughout life.

C. The Participation of Women in Credit Unions

A woman maintains her own account, though her husband may belong to a different credit union. Indeed, women are particularly active in the credit union movement, and many credit unions are managed by women. In this essentially matriarchal society, women are often the head of household and are responsible for family finances. Among families below the median-income in Belize City, for example, it is common for ownership of a house to be registered in the name of a female head of household. According to a local plumbing contractor, women are responsible for contracting nearly half of home improvement activity.

D. The Role of Credit Unions in Daily Life

On a daily basis, credit unions provide families with a package of financial services including planning, budgeting, and advice on major expenditures, as well as providing a motivation to save and a source of credit.

Without access to credit from the commercial banks, below median-income families depend on credit unions for entry into the market. Infusion of capital into the credit unions is the most equitable and efficient way to distribute financing for home improvement to below median income families in Belize.

With members of a family who also belong to the same Credit Union able to pool their shares to use as collateral for a loan, it is likely that poor people will find a way to borrow money for home improvement if it is available.

V. The Need and Demand for Housing Improvement

A. Nationwide

Belize City is the urban hub of Belize and is likely to be the location of greatest demand for home improvement loans. However, more than 100,000 people live in other small cities and rural areas.

Because of variation of economic opportunities in the six districts of Belize, housing patterns differ considerably. In Belize City, where many people rent rather than own their houses, 8,500 households occupy 6,313

7

dwellings units, based on the 1980 Valuation Department Survey.

Outside Belize City the typical pattern is for the extended family household to own and live in its own house. Consequently, average household expenditures for shelter vary from the approximately \$106, or 4% of the household of expenditure in Cayo District, to \$532, to 12% of the household expenditure in Belize City.

As a generalization, the housing stock in the rural and secondary cities is in better condition than much of the housing in Belize City because of the single-family owner-residency pattern.

#### B. Need in Belize City

Belize City is not formally zoned. There are poor and deteriorating neighborhoods on both the north and south sides of Haulover Creek, interspersed between residential and commercial areas of relative affluence.

Loans from the proposed project will be used throughout Belize City, in congested neighborhoods such as Mesopotamia and Collett. Here the aging timber housing stock, the destructive effects of the coastal weather, and the concentration of two and three households in single-family houses, have produced housing that is crowded, unsound and unhealthy.

Because Mesopotamia and Collett are the neighborhoods of greatest congestion, considerable effort has been spent to determine the need for improvement and to propose solutions. The CIDA Canadian-Belize Water and Sewer Project made the construction of water main pipes and pumping stations a higher priority here than for any other residential neighborhood.

The need for home improvement is evident. Congestion and a low-lying, filled site have contributed to the deterioration of houses in Mesopotamia. The unstable site results in the shifting of the foundation posts, which in turn destabilizes the connections between floor, walls and roof, and creates an ambivalence in which the structure is vulnerable to high winds. This can be corrected by filling in the ground floor, installing hurricane straps, and constructing concrete piers

#### C. Demand

Regardless of the physical or architectural instability of the neighborhood, social stability is marked. Because of

proximity to the main business street of Belize City, the low rents, and the neighborliness, the poor consider inner city neighborhoods a popular place to live.

Even while lack of money inhibits the rehabilitation of the houses, owners nevertheless are expanding and improving their houses. Many home improvement loans were made by credit unions in 1981.

The most common modification is to enclose the area beneath the raised living space with concrete block, which creates a waterproof living area. This construction costs approximately \$1,500 and has several results:

- it stabilizes the wood structure above. If securely braced with hurricane straps at the intersection of the structural surfaces the concrete block base will stabilize the house in the event of another hurricane. In any event, it increases the safety of the timber house by reinforcing the floor.

- it doubles the floor area of the house for the owner's use or for rental, thereby increasing the value and utility of the house.

- it provides a more convenient and secure site for the installation of a bathroom or a new kitchen.

#### D. Timing

The AID home improvement loan comes at an ideal time. The Department of Housing and Planning is reducing some of the congestion by resettling the population of the burned out section of Mesopotamia in new housing and is preparing a plan for the neighborhood. Rents are rising in the area, which will enable the owners to spend more money on their house and to consider it a cost-effective investment. The Canadian-Belize Water and Sewer Project is about to begin construction for the water mains and sewer lines that will provide the first facilities for modern house-to-house hookups in Mesopotamia.

This housing loan project supports these efforts in a way that will enable the population of the poorest neighborhoods to participate in the upgrading of their houses and ultimately the neighborhood.

### VI. Spread Effects and Social Consequences

#### A. Credit Unions

As funds are made available to the Credit Unions for home improvement loans, the benefits of credit Union membership will increase and membership will rise.

The day to day involvement of the Credit Unions in the lives of members involves assistance in household budgeting, promoting savings, and providing counsel on the application for and repayment of loans.

Membership in a Credit Union is a positive force in Belize. Strengthening the Credit Union movement will further stabilize this society.

B. Employment Generation

Home improvements will provide employment for skilled and unskilled labor, and for suppliers of building materials.

C. Improvement of Neighborhoods

Home improvement is often highly visible from the street, especially during construction. In a society of this size and degree of personal contact, knowledge of changes in ones house become quickly widely known. As these changes are seen to result in the improvement of the quality of life, interest in home improvement grows. Typically, the rehabilitation of several houses in a neighborhood signals a new interest throughout the neighborhood in home improvement and maintenance. As peer pressure to maintain ones own house increases, residents of improved housing take a greater interest in maintaining the value of the overall location of the house.

- In some cases, the ultimate effect of individual home improvement especially when combined with service and infrastructure improvement, results in the rehabilitation of the entire neighborhood.

- Improved sanitation through the installation of household plumbing, and the connection of the plumbing to the new Belize City wide water and sewer project, will result in greater health and wellbeing. The reduction of contagious water and waste-bourne diseases will improve the overall health of the city.

- In secondary cities and rural areas home improvement will result in safer houses and fewer household accidents.

D. Social Stabilization

Home improvement is a stabilizing force in a neighborhood. It evidences an intent to live in a secondary city rather than move to Belize City, or to stay in Belize City rather than migrate to the United States.

VII. Summary

The proposed home improvement loan program addresses one of the most visible problems and felt needs of Belize, deteriorating housing for low income families, through a social/financial mechanism, the credit unions, that is widespread, democratic, and popular.

LAC/DR-IEE-82-19

ENVIRONMENTAL THRESHOLD DECISION

Project Location : Belize

Project Title and Number : Preservation of Existing Housing  
(HG-001)

Funding : \$2,000,000 - HG  
\$ 400,000 - Grant

Life of Project : Two years

IEE Prepared by : Viviann Pettersson, PRE/H

Recommended Threshold Decision : Categorical Exclusion

Bureau Threshold Decision : Concurrence with Recommendation

Action : Copy to William Wheeler  
Mission Director, RDO/C

: Copy to Viviann Pettersson, PRE/H

✓ Copy to PRE/H IEE file

: Copy to George Hill, LAC/DR

: Copy to Thomas McKee, LAC/DR/MAD

: Copy to LAC/DR IEE file

: Copy to Richard Byess, LAC/DR/CAR

James S. Hester Date 12 4 1982  
James S. Hester  
Environmental Officer  
Bureau for Latin America  
and the Caribbean

This project (Belize-HG-001) qualifies for a Categorical Exclusion under 22CFR216.2(c)(2)(i), (ii) and (x).

The purposes of the project are:

1. To support and expand private sector participation in the financing and construction of shelter.
2. Stimulate local credit institutions and strengthen the institutional capacity of the local credit union system.
3. Preserve the existing housing stock of below median income families.
4. Assist GOB rationalize its housing delivery system.

To achieve these objectives, a \$2 million HG loan and \$400,000 in technical assistance are proposed. The loan will be made to the GOB (Ministry of Finance). Equivalent local currency will be disbursed to the Development Finance Corporation (DFC), which will on-lend part of the funds (Belize equivalent of \$250,000 U.S.) to rural homeowners for home improvement. The DFC will disburse the remainder of the funds (Belize \$ equivalent \$1,755,000 U.S.) to the Belize Credit Union League (BCUL) for distribution to individual credit unions for on-lending to credit union members for home improvement activities.

The determining principle in setting loan limits is that they be affordable to below median income families. For this calculation, up to 25% of household income can be used to service the loan. This provides an absolute maximum loan value of about U.S. \$4,725, assuming 18% annual interest charges and 20 year terms. Given the nature of a home improvement/expansion program, it is anticipated that very few loans will run for 20 years, and that most improvements will be substantially below the arithmetic ceiling shown above.

While costs of improvements will display infinite variations, an illustrative sampling of the type of improvements contemplated and their approximate cost is presented below:

<u>Improvement</u>	<u>Cost</u>
-- Installation of a complete new bathroom	1,200
-- Repair of minor structural damage from hurricanes	1,000
-- Upgrading from wooden stilts to concrete piles, and accompanying foundation work	900
-- Closing in clear storey (elevated section) and making habitable space	1,500
-- Upgrading of kitchen (plumbing, electrical)	300-600
-- Addition of a room (80 sq. ft.)	1,800

The program is nationwide in scope. Although major emphasis will be for preservation of the existing housing stock in Belize City (approximately U.S. \$1.2 million), there is no geographic area of the city targeted for home improvement activities. Individuals will apply for a loan for the specific improvements required for their shelter needs.



Parallel technical assistance efforts will be undertaken in collaboration with the Department of Housing and Town Planning of the Ministry of Health, Housing and Cooperatives and the Reconstruction Development Corporation. These will consist of consumer preference surveys and complementary experimental design work to develop alternative housing models embodying the minimum shelter/incremental approach to establish an economically viable entry level to home ownership for low income Belizeans. Some of the technical assistance effort will also support the development of the newly established Belize National Building Society. A housing advisor will perform the role of a high level shelter policy expert and project manager.

The loan is for support of credit institutions. AID will not have prior knowledge of specific activities for which individual subloans will be made nor does AID reserve the right to review and approve loans made by the institutions. The technical assistance funds will not directly affect the environment, except for the potential design and construction of a prototypical minimal shelter solution in which case the experimental construction will be confined to a small area and carefully monitored.

13

CIDA-GOB WATER AND SEWER PROJECT

ANNEX 13

The Belize City Water and Sewerage System Project, Phases I and II, is a joint effort of CIDA and the GOB. CIDA funds \$22 million in grants and loans. The GOB provides counterpart financing of \$3 million.

The project is of particular interest to AID's home improvement project. Home improvement loans will be sought in order to pay for the expansion of houses to permit the installation of toilets and sinks as well as the plumbing for connecting individual households to the water and sewer mains.

The project provides for the completion of an ongoing water and sewerage project to service the entire Belize City area. Design work has been completed and construction began in 1976. All basic infrastructure is now in place.

Already completed, or nearing completion, are:

- a water treatment plant at Mile 17 outside of Belize City;
- the water transmission main to the city;
- the main pumping station in Belize City;
- the main distribution network between north and south sides of the city;
- the main distribution network along the central business district on the south side of the city.
- complete water mains;
- sewer main;
- house and shop connections in the central business districts;
- sewage lagoons in which raw sewage is treated by aeration then transferred to the sea;
- repair of the Yarborough elevated water tank; and
- repair of two emergency water tanks.

In addition, construction is planned for:

- complete sewer mains to the entire city;
- replacement of old lead pipes with PVC; and
- connections and maters to Zones 3 and 4 (Collett and Mespotamia).