

**DEVELOPMENT FINANCE CORPORATION:
GLOBAL CREDIT PROGRAM FOR
SAFEGUARDING THE PRODUCTIVE
SECTORS AND EMPLOYMENT
FINANCIAL REPORT LOAN CONTRACT
NO. 5318/OC-BL**

*Financial Statements for the Fourteen Months
Ended December 31, 2022 and Independent
Auditors' Report*

**DEVELOPMENT FINANCE CORPORATION
GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE SECTORS
(LOAN CONTRACT NO. 5318/OC-BL)**

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**DEVELOPMENT FINANCE CORPORATION
GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE SECTORS AND
EMPLOYMENT (LOAN CONTRACT NO.5318/OC-BL)
FOR THE FOURTEEN MONTHS ENDED DECEMBER 31, 2022 (IN US DOLLARS)**

INTRODUCTION

The general objective of the project is to support the sustainability of Micro, Small and Medium Enterprises (MSMEs) as employment providers in Belize amid the COVID-19 crisis. The specific objectives are (i) to support the short-term financial sustainability of MSMEs; and (ii) to promote the economic recovery of MSMEs through access to production-oriented finance. The Program provides financing to support MSMEs access to credit resources provided through the Development Finance Corporation (DFC) and/ or Intermediary Financial Institutions (IFIs) participating in the Program. Resources support economic recovery by providing loans to working capital and production-oriented finance to MSMEs.

The Project is comprised of a single component with 2 subcomponents as follows:

Subcomponent 1.1: Support for improvement of short-term financial capacity

Resources under this subcomponent are used to help MSMEs affected by the crisis to overcome temporary liquidity problems and continue operating, being able to comply with their commercial and financial obligations and normalize their business cycle.

Subcomponent 1.2: Support for access to production-oriented finance for economic recovery

Resources under this subcomponent are used to support economic recovery by providing production-oriented finance to MSMEs. The subcomponent includes credit for investment projects to ensure that MSMEs have the ongoing access to the finance they need to continue operating their businesses, recover from the crisis (including inactive MSMEs that had to close due to COVID-19 but are still economically feasible) or meet increased demands as a consequence of COVID-19. .

DEVELOPMENT FINANCE CORPORATION
GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE SECTORS AND
EMPLOYMENT (LOAN CONTRACT NO.5318/OC-BL)
FOR THE FOURTEEN MONTHS ENDED DECEMBER 31, 2022 (IN US DOLLARS)

INTRODUCTION (CONTINUED)

The Budget for the Project is US\$15,000,000 as financed by the Inter-American Development Bank (IDB) through Loan Contract No. 5318/OC-BL, and as illustrated below:

Cost and Financing

(in millions of US\$)

Component	IDB	Total
Single Component: Support for MSMEs financing	15	15
Subcomponent 1.1 Support for improvement of short-term financial capacity	3	3
Subcomponent 1.2 Support for access to production-oriented finance for economic recovery	12	12
Total	15	15

The Loan Contract was signed on November 10, 2021 and has a disbursement period of 2 years from the effective date of the Contract. Any extensions of the original disbursement period requires the consent of the Guarantor (Government of Belize) and the IDB.

The financial statements and notes of the Project for the period ended December 31, 2022 follow.

DEVELOPMENT FINANCE CORPORATION
GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE SECTORS AND
EMPLOYMENT (LOAN CONTRACT NO.5318/OC-BL)
FOR THE FOURTEEN MONTHS ENDED DECEMBER 31, 2022 (IN US DOLLARS)

OBJECTIVE OF AUDIT

The objective of our audit is to provide IDB with the assurance that disbursed resources are being managed in accordance with the terms of Loan Contract No. 5318/OC-BL, in an environment in which there are adequate management, administrative and financial controls.

Our audit was conducted in accordance with the requirements of Audited Financial Reports and External Audit Management Guidelines and in accordance with International Standards on Auditing. Accordingly, our auditing procedures included tests of accounting records and controls along with other procedures considered necessary in the circumstances.

The specific objectives of our audit were:

1. To express an opinion as to whether the Statement of Cash Received and Disbursements and Statement of Cumulative Investments present fairly, in all material respects, the cash received and disbursements made for the period ended December 31, 2022 in accordance with the requirements established in Section 5.02 (1.) and Article 7.03 of the Loan Contract No. 5318/OC-BL and the Audited Financial Reports and External Audit Management Handbook for Projects Financed by the IDB;
2. To obtain a sufficient understanding of the DFC Global Credit Program objectives, risk assessment procedures and internal controls designed;
3. To test internal controls and report on material weaknesses in internal controls and inefficiencies encountered; and
4. To determine whether the DFC Global Credit Program complied, in all material respects, with the terms and conditions of the Loan Contract and any other applicable laws and regulations.

SCOPE OF AUDIT

The scope of our audit included:

1. An evaluation of the internal control system of the Program;
2. A review of the financial transactions and accounting records for the purpose of providing an opinion as to whether the financial information of the Program is reasonably presented and in accordance with the requirements established in Section 5.02 (1.) and Article 7.03 of the Loan Contract No. 5318/OC-BL and the Audited Financial Reports and External Audit Management Handbook for Projects Financed by the IDB;
3. An evaluation of compliance with the financial, accounting and operational contractual clauses and regulations;
4. All necessary supporting documentation and records related to the activities of the Program are maintained in respect of Program activities; and
5. A review of any other supporting documentation related to the activities of the Program deemed as necessary.



**INDEPENDENT AUDITORS' REPORT ON THE STATEMENT OF CASH RECEIVED AND
DISBURSEMENTS AND STATEMENT OF CUMULATIVE INVESTMENTS
DEVELOPMENT FINANCE CORPORATION
GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE SECTORS AND
EMPLOYMENT (LOAN CONTRACT NO. 5318/OC-BL)**

To: Development Finance Corporation

**Program: Global Credit Program for Safeguarding the Productive Sectors and
Employment**

Opinion

We have audited the Financial Statements of Global Credit Program for Safeguarding the Productive Sectors and Employment carried out by the Development Finance Corporation as financed with resources of Loan Contract No. 5318/OC-BL from the Inter-American Development Bank (IDB), which include the Statement of Cash Received and Disbursements and the Statement of Cumulative Investments for the fourteen months ended December 31, 2022, and the notes to the financial statements which include a summary of the relevant accounting policies.

In our opinion, the accompanying financial statements of the Global Credit Program for Safeguarding the Productive Sectors and Employment for the period ended December 31, 2022 have been prepared in all material respects, in accordance with the financial reporting requirements of Section 5.02 and Article 7.03 of the Loan Contract No. 5318/OC-BL and the Audited Financial Reports and External Audit Management Handbook for projects financed by IDB.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the financial statements section of our report. We are independent of the Development Finance Corporation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting, and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements have been prepared to assist the Global Credit Program for Safeguarding the Productive Sectors and Employment in accordance with the requirements of the Loan Contract No. 5318/OC-BL and the Audited Financial Reports and External Audit Management Handbook for Projects Financed by the IDB. As a result, the financial statements may not be suitable for another purpose.

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Our report is intended only for the Development Finance Corporation (Borrower) and Inter-American Development Bank, and should not be distributed to other parties other than Government of Belize (Guarantor). However, this report may become a public document, in which case its distribution would not be limited. Our opinion has not been modified in relation to this issue.

Management's Responsibility

Management is responsible for the preparation of these financial statements in accordance with the requirements established in Section 5.02 & Article 7.03 of the Loan Contract No. 5318/OC-BL and the Audited Financial Reports and External Audit Management Handbook for Programs Financed by the IDB. In addition, management is responsible for establishing internal controls as they determine necessary to enable the preparation of statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our objective is to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting judgments and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

HLB, Belize, LLP

Chartered Accountants
Belize City, Belize
April 27, 2023

DEVELOPMENT FINANCE CORPORATION
GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE SECTORS AND EMPLOYMENT
(LOAN CONTRACT NO.5318/OC-BL)
STATEMENT OF CASH RECEIVED AND DISBURSEMENTS
FOR THE FOURTEEN MONTHS ENDED DECEMBER 31, 2022 (IN US DOLLARS)

	Notes	PERIOD ENDED DECEMBER 31, 2022	
		IDB	Total
CASH RECEIVED		\$	\$
Beginning Balance		-	-
Activity during the period			
Disbursements (Advances, reimbursements and direct payments)		4,850,000	4,850,000
Interest Received		-	-
Other		-	-
TOTAL CASH RECEIVED		4,850,000	4,850,000
DISBURSEMENTS			
Beginning Balance		-	-
Activity during the period			
Subcomponent Loans Issued		3,716,156	3,716,156
Other		77	77,000
TOTAL CASH DISBURSEMENTS		3,716,233	3,716,233
Cash Received less Disbursements		1,133,767	1,133,767
AVAILABLE CASH AS OF END OF PERIOD		1,133,767	1,133,767



Chief Executive Officer
Development Finance Corporation

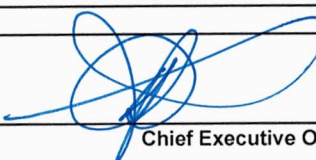


Chief Financial Officer
Development Finance Corporation

The accompanying notes on pages 8 to 10 form an integral part of these financial statements.

DEVELOPMENT FINANCE CORPORATION
GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE SECTORS AND EMPLOYMENT
(LOAN CONTRACT NO.5318/OC-BL)
STATEMENT OF CUMULATIVE INVESTMENT
FOR THE FOURTEEN MONTHS ENDED DECEMBER 31, 2022 (IN US DOLLARS)

INVESTMENTS CATEGORY/COMPONENTS	MOVEMENTS DURING THE PERIOD ENDED DECEMBER 31, 2022		CUMULATIVE AT THE END OF DECEMBER 31, 2022	
	IDB	Total	IDB	Total
SUBCOMPONENT 1.1: SUPPORT FOR IMPROVEMENT OF SHORT TERM FINANCIAL CAPACITY	\$	\$	\$	\$
Agriculture	41,146	41,146	41,146	41,146
Fishing	302,500	302,500	302,500	302,500
Manufacturing	10,000	10,000	10,000	10,000
Tourism	314,000	314,000	314,000	314,000
Services	71,000	71,000	71,000	71,000
Transportation	3,500	3,500	3,500	3,500
TOTAL	742,146	742,146	742,146	742,146
SUBCOMPONENT 1.2: SUPPORT FOR ACCESS TO PRODUCTION-ORIENTED FINANCE FOR ECONOMIC RECOVERY				
Agriculture	1,168,275	1,168,275	1,168,275	1,168,275
Fishing	28,500	28,500	28,500	28,500
Distribution	45,000	45,000	45,000	45,000
Manufacturing	27,500	27,500	27,500	27,500
Tourism	485,595	485,595	485,595	485,595
Services	1,123,074	1,123,074	1,123,074	1,123,074
Transportation	98,200	98,200	98,200	98,200
TOTAL	2,976,144	2,976,144	2,976,144	2,976,144
TOTAL	3,718,290	3,718,290	3,718,290	3,718,290


Chief Executive Officer
Development Finance Corporation


Chief Financial Officer
Development Finance Corporation

The accompanying notes on pages 8 to 10 form an integral part of these financial statement

DEVELOPMENT FINANCE CORPORATION
GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE SECTORS AND
EMPLOYMENT (LOAN CONTRACT NO.5318/OC-BL)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FOURTEEN MONTHS ENDED DECEMBER 31, 2022 (IN US DOLLARS)

1. PROJECT DESCRIPTION

Global Credit Program for Safeguarding the Productive Sectors and Employment (“the Program”) is a program to support the sustainability of Micro, Small, and Medium Enterprises (MSMEs) as employment providers in Belize amid the COVID-19 pandemic. The Loan Contract/Agreement No 5318/OC-BL for US\$15 million was signed on 10th November 2021 between the Inter-American Development Bank and the Development Finance Corporation (DFC), who is also executing agent for the Loan. The Program is divided into two subcomponents: 1.1) to support the short-term financial sustainability of MSMEs, and 1.2) to promote the economic recovery of MSMEs through access to production-oriented finance. The Program has issued 23 loans under subcomponent 1.1 and 76 loans under subcomponent 1.2.

There has been no contract amendment to date to the Loan Contract signed on 10th November 2021.

The Program’s registered office is Bliss Parade, Belmopan, Cayo District, Belize.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared using the cash basis of accounting, recognizing revenue when the cash is received and recognizing expenses when the cash has been disbursed. This record-keeping modality differs from the IPSAS under which transactions should be recorded as they are incurred and not when they are paid. However, the IPSAS have been applied to these circumstances discussed in the chapter “Cash Basis IPSAS: Financial Reporting under the Cash Basis of Accounting”.

Currency

The program’s accounting records are maintained in US dollars, in accordance with the IDB’s requirements. Transactions are converted at the fixed rate of BZ\$2 to US\$1.

DEVELOPMENT FINANCE CORPORATION
GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE SECTORS AND
EMPLOYMENT (LOAN CONTRACT NO.5318/OC-BL)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FOURTEEN MONTHS ENDED DECEMBER 31, 2022 (IN US DOLLARS)

3. AVAILABLE CASH BALANCE

The available cash balance as of December 31, 2022, in the Program's bank accounts was:

	<u>2022</u> US \$
Central Bank of Belize Account No. 311418	\$ 875,000
Belize Bank Limited Account No. 127043010120009	\$ 258,767
Total cash and bank balance	<u>\$ 1,133,767</u>

4. ADVANCES PENDING JUSTIFICATION

At December 31, 2022, the amount pending justification to the IDB amounted to US\$143,345.

5. RECONCILIATION OF STATEMENT OF CASH RECEIVED AND DISBURSEMENTS WITH THE STATEMENT OF CUMULATIVE INVESTMENTS

		<u>2022</u> US \$
Loan Disbursements as per Statement of Cash Receipts and Disbursements		\$ 3,716,156
Less: Reconciling Items		
Withdrawn Claim	\$ (20,000)	
Loan Fees reimbursable from the IDB Account	<u>\$ 22,134</u>	
	<u>\$ 2,134</u>	
Loan Disbursements as per Statement of Cumulative Investments		<u>\$ 3,718,290</u>

DEVELOPMENT FINANCE CORPORATION**GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE SECTORS AND EMPLOYMENT (LOAN CONTRACT NO.5318/OC-BL)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE FOURTEEN MONTHS ENDED DECEMBER 31, 2022 (IN US DOLLARS)

6. RECONCILIATION BY CATEGORY OF INVESTMENT OF THE PROGRAM'S RECORDS WITH THE IDB'S RECORDS

CATEGORY	Cumulative Balance as per:		Variance	Explanation for Variances
	Program's Records (Statement of Cumulative Investments)	IDB's Records (LMS 1 Executive Financial Summary)		
SUBCOMPONENT 1.1: SUPPORT FOR IMPROVEMENT OF SHORT-TERM FINANCIAL CAPACITY	\$ 742,146	\$ 742,847	\$ (701)	Net of investment pending justification and withdrawn claim
SUBCOMPONENT 1.2: SUPPORT FOR ACCESS TO PRODUCTION-ORIENTED FINANCE FOR ECONOMIC RECOVERY	\$ 2,976,144	\$ 2,852,098	\$ 124,046	Investments pending justification
Totals	\$ 3,718,290	\$ 3,594,945	\$ 123,345	

7. SUBSEQUENT EVENTS

No adjusting or significant non-adjusting events have occurred between the reporting date December 31, 2022 and the date of authorization.

8. AUTHORIZATION DATE

The financial statements were authorized on April 27, 2023 by the Chief Executive Officer and Chief Financial Officer respectively of the Development Finance Corporation.



**INDEPENDENT AUDITORS' REPORT ON THE
SYSTEM OF INTERNAL CONTROL
GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE SECTORS AND
EMPLOYMENT (LOAN CONTRACT NO. 5318/OC-BL)**

To: Development Finance Corporation

Project: Global Credit Program for Safeguarding the Productive Sectors and Employment

We have audited the Statement of Cash Received and Disbursements and Statement of Cumulative Investments as of and for the period ended December 31, 2022 for the Global Credit Program for Safeguarding the Productive Sectors and Employment (Loan Contract 5318/OC-BL), entered into by the Development Finance Corporation and the Inter-American Development Bank, executed by the Development Finance Corporation and have issued our report thereon dated April 27, 2023.

This report complements our opinion on the referenced financial statements.

The Management of the Development Finance Corporation is responsible for establishing and maintaining a system of internal control sufficient to mitigate the risks of financial information misstatements and safeguard the resources and investments of the Program. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of system of internal control policies and procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that the financial assets are protected against loss from unauthorized use; transactions are executed in accordance with management's authorization and in accordance with the terms of the loan contract, and transactions are recorded properly to permit the preparation of fair and true financial statements. Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, the projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Program's financial statements for the period ended December 31, 2022 we obtained an understanding of the system of internal controls. With respect to the system of internal controls, we obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation and we assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the Program's financial statements and not to provide an opinion on the system of internal controls. Accordingly, we do not express such an opinion.

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We noted two areas of internal control weakness that we consider to be reportable conditions under International Standards of Auditing. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or implementation of the system of internal control that, in our judgment, could adversely affect the ability of the Global Credit Program for Safeguarding the Productive Sectors and Employment to record, process, summarize, and report financial data consistent with assertions of management in the Statement of Cash Received and Disbursements and Statement of Cumulative Investments.

A material weakness is a reportable condition in which the design or operation of one or more of the specific elements of the system of internal control does not reduce to a relatively low level the risk that significant errors or irregularities in amounts that would be material in relation to the Program's financial statements may occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions.

HLB, Belize, LLP

Chartered Accountants
Belize City, Belize
April 27, 2023

DEVELOPMENT FINANCE CORPORATION
GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE SECTORS AND
EMPLOYMENT (LOAN CONTRACT NO.5318/OC-BL)
REPORT ON THE SYSTEM OF INTERNAL CONTROLS
FOR THE FOURTEEN MONTHS ENDED DECEMBER 31, 2022 (IN US DOLLARS)

Control Objective	In Compliance/ or Not in Compliance
Loans under both subcomponent 1.1 and 1.2 are granted to eligible borrowers in accordance with the Credit Regulations.	In Compliance. However; documentation of eligibility evaluation can be improved. Refer to Letter of Recommendations
Subcomponent loans are disbursed in accordance with appropriate internal controls that safeguard the funds as much as possible including having adequate security.	Partially in Compliance. Notice letter to sub-borrowers Under Credit Regulation 8.2 was not always executed. Refer to Letter of Recommendations.
Subcomponent loans are managed and reported in line with Credit Regulations.	Partially in Compliance. The Program is not in compliance with Sections 6.7 and 7.11 of the Credit Regulations. Refer to Letter of Recommendations.
Disbursement Requests to the IDB were properly authorized and submitted; funds received were correctly recorded in the approved chart of accounts.	In Compliance
Program Information is Organized and Safeguarded.	In Compliance
Program bank reconciliation are prepared timely.	In Compliance



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH FINANCIAL
ACCOUNTING CONTRACTUAL CLAUSES AND THE PROGRAM'S OPERATING
REGULATIONS
GLOBAL CREDIT PROGRAM FOR SAFEGUARDING PRODUCTIVE SECTORS AND
EMPLOYMENT (LOAN CONTRACT NO. 5318/OC-BL)**

To: Development Finance Corporation

**Program: Global Credit Program for Safeguarding the Productive Sectors and
Employment**

We have audited the Statement of Cash Received and Disbursements and Statement of Cumulative Investments as of and for the period ended December 31, 2022 for the Global Credit Program for Safeguarding the Productive Sectors and Employment (Loan Contract 5318/OC-BL), entered into by the Development Finance Corporation and the InterAmerican Development Bank and have issued our report thereon dated April 27, 2023.

In relation to our audit, we determined compliance with most financial and accounting contractual clauses and articles within the Special Conditions and General Conditions described in of Loan Contract No. 5318/OC-BL, for the period ended December 31, 2022. We have examined the Special Conditions described in Chapter V and General Conditions described in Chapters 6 and 7 and the provisions of the approved Credit Regulations, Chapter XII.

We conducted our audit in accordance with International Standards on Auditing and the requirements of the Inter-American Development Bank. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Program has complied with the pertinent loan contractual clauses, applicable laws and regulations and the provisions contained in the Program's Credit Regulations. The audit also includes examining, on a test basis, the appropriate evidence. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, except for Section 5.02 of the Special Conditions and Item 12.10 of the Credit Regulations, we are not aware of any other instances of acts of noncompliance that occurred or acts of violation on the part of the Development Finance Corporation with respect to the financial and accounting contractual clauses of Loan Contract 5318/OC-BL and the Program's Credit Regulations.

HLB, Belize, LLP

**Chartered Accountants
Belize City, Belize
April 27, 2023**

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DEVELOPMENT FINANCE CORPORATION
GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE SECTORS AND
EMPLOYMENT (LOAN CONTRACT NO.5318/OC-BL)
REPORT ON CONTRACTUAL CLAUSES
FOR THE FOURTEEN MONTHS ENDED DECEMBER 31, 2022 (IN US DOLLARS)

Report on Contractual Clauses		
Section	Clause	Findings
Special Conditions		
Section 5.02 Supervision of the Financial Management of the Project	(a) For the purposes of Article 7.03 of the General Conditions, as of the date of Signature of this Contract, the following external audit financial reports and other reports have been identified as necessary to supervise the financial management of the Project:	
	(1) Annual Audited financial statements of the Project; and	In Compliance
	(2) Progress reports delivered within 60 days after the close of each six months period.	Partially in Compliance. Semestral Report due for six month period ended December 31, 2022 was not submitted to the IDB.
General Conditions		
Article 6.01. Financial Information and Internal Control Systems	(a) The Borrower shall maintain internal controls so as to reasonably ensure: (i) that Project resources are used for the purposes of this Contract, devoting special attention to the principles of economy and efficiency; (ii) that Project assets are adequately safeguarded; (iii) that Project transactions, decisions, and activities are duly authorized and executed in accordance with the provisions of this Contract and any other contract related to the Project; and (iv) that transactions are properly documented and recorded in a way that facilitates the production of timely and reliable reports.	In Compliance

DEVELOPMENT FINANCE CORPORATION
GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE SECTORS AND
EMPLOYMENT (LOAN CONTRACT NO.5318/OC-BL)
REPORT ON CONTRACTUAL CLAUSES
FOR THE FOURTEEN MONTHS ENDED DECEMBER 31, 2022 (IN US DOLLARS)

Report on Contractual Clauses (Continued)		
Section	Clause	Findings
General Conditions		
Article 6.01. Financial Information and Internal Control Systems	(b) The Borrower shall maintain an acceptable and reliable financial management system for the timely management of Project resources that provides for: (i) financial planning; (ii) accounting, budgetary, and financial record-keeping; (iii) contract administration; (iv) payment processing; and (v) the issuance of financial audit reports and other reports associated with the resources of the Loan, the Additional Resources, and other financing sources of the Project, if any.	In Compliance
ARTICLE 7.03. External Financial Audit Reports and other Financial Reports	(a) Unless the Special Conditions establish otherwise, the Borrower, shall present the Bank with external financial audit reports and other reports identified in the Special Conditions within one hundred twenty (120) days following the closing of each fiscal year of the Project and within the Original Disbursement Period or any extension thereof, and within one hundred twenty (120) days following the date of the last disbursement.	In Compliance
Credit Regulations		
12.10 Maintenance of Regulatory Ratios	The Borrower commits to maintain solvency and liquidity ratios above the regulatory minimums established at all times. For this purpose, the Borrower must submit, along with the Financial Statements, a section showing their monthly evaluation of these ratios.	Not In Compliance. The monthly evaluation of ratios pertinent to DFC is not reported to the IDB.



April 27, 2023

Mr. Henry Anderson
Chief Executive Officer
Development Finance Corporation
Global Credit Program for Safeguarding the
Productive Sectors and Employment
Belmopan, Belize

Dear Mr. Anderson,

We have completed our financial audit of the Global Credit Program for Safeguarding the Productive Sectors and Employment (Loan Contract 5318/OC-BL) for the fourteen months ended December 31, 2022. During the course of our audit, we examined the principal controls that the Program has established to enable it to ensure, as far as possible, the accuracy and reliability of its records and safeguard of its assets.

We have noted 3 areas in the Program's system of internal controls along with our recommendations that we would like to bring to your attention to strengthen the management and execution of the Program. These are detailed in the Appendix to this letter.

Kindly note, however, that the examination we carried out cannot be relied upon to disclose every weakness and for this reason the matters dealt with in this letter are not necessarily the only shortcomings which may exist in the system. The potential effectiveness of specific controls at the Program is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that:

- 1) changes made to the system or controls,
- 2) changes in processing requirements, or
- 3) changes required because of the passage of time may alter the validity of such conclusions.

We must commend the Program for its efforts to comply with the clauses stipulated in the Development Finance Corporation and Inter-American Development Bank Loan Contract No. 5318/OC-BL and the supporting Credit Regulations.

We greatly appreciate the opportunity to serve as your external independent auditors.

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This report is intended solely for use by the management of the Development Finance Corporation and Representatives of the Inter-American Development Bank.

Please feel free to contact us whenever you feel we might be of assistance to you.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Claude C. Burrell'.

Claude C. Burrell
Client Service Partner

Compliance with Reporting RequirementsFinding

The Development Finance Corporation, as borrower, is not in compliance with all reporting requirements as per the Global Credit Program's Loan Contract 5318/OC-BL and supporting Credit Regulations. Continued noncompliance can have negative ramifications for the Corporation in terms of receiving additional disbursements, extension of disbursement period or gaining future loan facilities from the Inter-American Development Bank.

Recommendation

We encourage the Corporation to review the Loan Contract and Credit Regulations to identify all reporting requirements, assign persons to complete the report and track the preparation and submissions of these to the IDB. There should be a reporting mechanism to highlight any non-compliance to senior officers.

Management Response

The audit point and recommendation is noted and in particular, we note the specific reporting gaps that have been identified. Since the start of this Program, the Corporation has bolstered capacity in key areas including Credit with the recruitment of a new Chief Lending Officer, who has initiated the process of reviewing our reporting requirements generally. This process should see our reporting compliance enhanced through the establishment of internal arrangements and in collaboration with relevant personnel at IDB, to ensure the reporting requirements are clarified and better defined where necessary to focus on value, both for the Corporation and for IDB.

Prohibited Practices MonitoringFinding

In our sample review and verification of loan documentation, we noted that 9 out of 20 loans with loan principal disbursed above US \$30,000 or BZ \$60,000, lacked Annex 3 requiring the written notification signed by the sub-borrower that they are aware of the prohibited practices of the IDB policy. See requirement below:

As per the DFC Global Credit Program - Credit Regulations (Version 3), Section 8.2, "For sub-loans greater than US\$30,000, inform the final beneficiary of the provisions against prohibited practices of the IDB policy by written notification following the format established in Annex 3".

Recommendation

Credit officers and management should be reminded of this commitment to ensure this important part of the loan documentation is completed. We encourage DFC to approach the remaining sub-borrowers to correct this situation.

Management Response

The audit point and recommendation is noted and Management recognizes the value of our commitment on this matter. The specific matter of the formal notification to clients for loans greater than BZ\$60,000 will be reviewed and addressed, retrospectively as may be necessary and going forward for new sub-loans, including ensuring that all relevant personnel at DFC are aware of the requirement and its importance. The retrospective review will consider if the identified cases included any instance of blended financing; i.e. instances where the entire loan amount was not fully allocated for funding with IDB resources.

Improvement in Documentation of Sub-borrower EligibilityFinding

The DFC Global Credit Program for Safeguarding the Productive Sector and Employment has specific requirements for eligibility of sub-borrowers to meet the objectives of the Program. This is supported by the Credit Regulations.

During the verification of loan selections, it was observed that sub-borrower's eligibility for loans under this Program, is evaluated but the evaluation is not specifically documented to itemize the criteria which each sub-borrower meets in the determination of eligibility. For example, in conversation with Branch Manager Re: Loan #202200416 officers are aware of what to look for e.g. sales amounts within a set of management financial statements; however, there was no documentation of this being the criteria used or if the loan met other criteria e.g. women owed.

Recommendation

We encourage management to have a form or checklist that is used to document the evaluation of sub-borrower eligibility as this will not only aid in senior officer's review of loans meeting the eligibility criteria, it may also assist with the necessary data used to produce the credit reports to the IDB as per Sections 6.7 and 7.11 of the Credit Regulations - DFC is required to submit individual credit reports to IDB with loan details such as gender variables, green variables, annual sales, and number of employees.

Management Response

The audit point and recommendation is noted and will be reviewed further with a view to strengthening the process to improve to the extent necessary on the documentation of the evaluation of the client's eligibility for funding using IDB resources. In general, we propose to engage with counterparts at IDB to enhance our reporting to effectively meet the requirements as currently documented with a focus on ensuring value, both to the Corporation and to the IDB.

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