**Compliance with IDB Policy on Additional Financing of Cost Overruns for**

**Operations in Progress (GN-2329).**

1**. The Proposed Additional Financing.** The additional project costs and financing requirements are due to the following technical and financial factors: (i) climate change adaptation aspects, improved road characteristics and safety elements based on detailed designs; (ii) higher than originally anticipated bid prices; (iii) design review and additional quantities of materials required for the works; (iv) increase in quantity and cost for relocation and renewal of utilities based on utility companies detailed and updated breakdown of costs; and (v) higher than budgeted cost for construction supervision due to amount of work and longer construction period. In summary, the costs overruns result from the accumulation of various causes beyond the control of the executing agency. According to current final cost estimates, another US$7 million will be required to complete the civil works in accordance with the project design. The Government of Belize has requested an additional loan of US$7 million from the Bank for 2018 to enable signing of a contract for Section 3 and completing the project activities as originally planned.

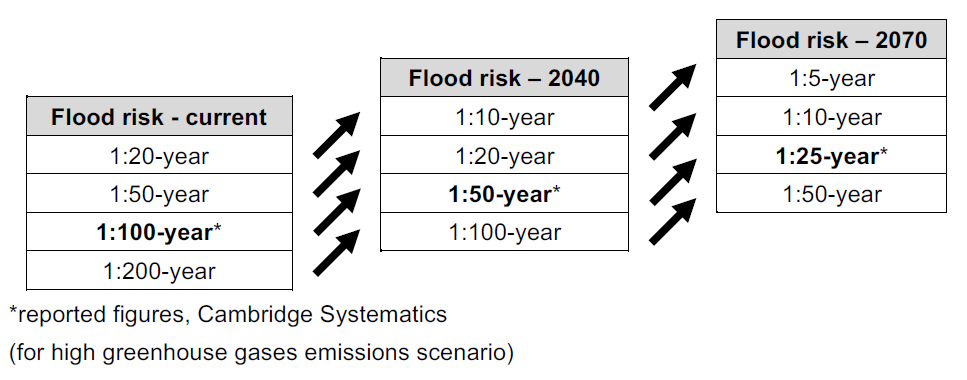
2. **Compliance with Bank Policy.**  The Bank Policy for Additional Financing of Cost Overruns for Operations in Progress (GN-2329, included in OP-310) defines cost overruns as “costs that exceed the costs initially estimated in the loan contract and adjustments occurring during project execution (inflation index) that are stipulated in the loan document”. The justification included in the Policy is that development projects are in the public interest and need to be effectively completed in order to benefit the country and its people. The Bank’s involvement must help ensure that all of the objectives of a Bank-financed project are accomplished. The Policy establishes specific conditions for receiving such financing, all of which have been complied with in this operation. The compliance with the conditions is detailed below:

**i. *The Borrower must make the request before the present disbursement period expires.*** The Borrower’s request is dated April 17, 2018 and the final disbursement date for BL-L1019 is November 17, 2020.

***ii. The project or program must be proceeding satisfactorily.*** The Project Monitoring Report (PMR) for the period June to December 2017 rated the implementation of the project as satisfactory. The civil works and maintenance component which accounts for 90% of the project funds is 65% committed with the contracting of Section I and Section II.

***iii. The cost overruns must be the result of exceptional circumstances beyond the borrower's control.*** The cost overruns are due to:

1. Climate change adaptation aspects, improved road characteristics and safety elements included in the final detailed designs based on the local requirements after Hurricane Earl in 2016. Hurricane Earl penetrated the country as far as Belmopan and San Ignacio, where the project site is located. According to the Economic Commission for Latin America and the Caribbean/IDB assessment of the hurricane damage, 34% of the damage to public infrastructure was in the transport sector. Consequently, the final designs considered some necessary technical adjustments to the preliminary designs to comply with the objectives of the operation taking the experience from the hurricane into account. The main consideration was flooding problems are predicted to become more frequent, with flood volumes and flows increasing in response to the impacts arising from climate change. As a result, a 1:20 year or 1:100 return period event (criteria used for the design of the drainage system and bridges respectively) will be equivalent to shorter return period in the future. This is highlighted below for a high greenhouse gas emission scenario to emphasis the point.



*Source: Hydrologic/Hydraulic Studies Report, CH2M, 2016*

Since that the road has an expected design life of 20 years and the structures lives vary between 30 to 50 years, the designers used a 30% increase in peak fluvial flood flows for a higher standard of resilience. This provided some safeguard against the structure becoming obsolete before the end of its design life.

1. The estimates for the works prepared at the time of project preparation were based on conceptual designs and a feasibility study carried out in 2014 and taking into consideration cost for similar works in Belize at the time. Final designs were completed in 2017 and rates at that stage were available from a recently tender CDB transport project in San Ignacio/Santa Elena which along with the adjustments and inflation reflected higher costs for civil works on the George Price Highway.
2. Besides the international consulting firm retained by the government with TC resources from the Bank to complete the final designs for the civil works; as a best practice an independent reviewer also retained to assist the government to quality assure these designs. Nonetheless, design amendments none the less were required following post-contract design constructability reviews done by the international firm retained for construction supervision of the works. The amendments resulted in shortfall in quantities mainly attributed to additional rock excavation to improve a poorly aligned curve and increase in road base layer to allow for adequate drainage of that layer and intersections with side streets.
3. At the design stage the utility companies were consulted for estimated cost associated with the relocation of infrastructure belonging to these companies. The utility companies’ subsequently presented detailed breakdown of costs, in particular those of the water utility (which accounts for 93% of the cost), at the commencement of the works contracts. These quotations for relocating the utilities that were above that of the original estimates for the works. In addition, water mains previously attributed to the utility were identified as being owned by six villages along the highway and these were not captured in the estimates for utility relocation and represents approximate 40% of the length of the road.
4. The bidding process for the construction supervisor saw bids all above the amount budgeted in the operation. In addition, the staggering of the start of Section 3 due to the shortage of resources to commit to that contract requires additional resources for construction supervision.

***iv. Adjusting the project volume or coverage to the funding available would seriously jeopardize the possibility of achieving the project objectives.*** An adjustment to the scope of the project would have one of the following results (i) a reduction in the quality of the road infrastructure being funded; (ii) a reduction in climate resilience or safety elements of the designs; or (iii) reduction in the length of the roadway is rehabilitated. None of the aforementioned options are desirable and with respect to item (iii), the specified length is the distance to Santa Elena which is the next population center in that region in Belize, making it necessary to complete the 31km of road to achieve the objectives of the project.

***v. The additional financing will make it possible to achieve the objectives of the operation without adversely affecting the economic, financial, institutional, and environmental feasibility of the operation.*** The economic assessment for the projects was updated on the basis of the new forecasted costs, observed traffic counts and direct benefits of road improvements. The evaluation of this rehabilitation project resulted in an EIRR of 13.5%; the project is thus feasible and at the end of its lifecycle, it will yield a positive impact. Given that the design concept has not changed, the environmental and social aspect of the project have not been adversely affected, nonetheless, funds are being added to enhance the environmental and social mitigation and monitoring of the project.

**vi. *The borrower must not have additional resources at its disposal, and must not have been able to obtain financing from other sources on reasonable terms and conditions.*** The Borrower has previously secured a €5 million grant from the European Union’s Caribbean Investment Facility (CIF) towards the George Price Highway rehabilitation. In addition, the country is currently facing fiscal constraints which limits the country’s ability to obtain financing on reasonable terms and conditions which are comparable to the IDB.

***vii. The borrower must be in a position to provide additional counterpart resources to*** ***maintain the original ratios approved in the project financing matrix, including cost overruns.*** Loan 3344/OC-BL was approved on November 19, 2014 with a financial matrix of 94.64% (IDB) and 5.36% (Counterpart). Subsequently, the Government of Belize was able to secure a grant from the European Union’s Caribbean Investment Facility (CIF) as a contribution to the 3344/OC-BL for an amount of €5 million. The CIF funds will be disbursed directly to the government for the financing of activities under the George Price Highway Rehabilitation project. With the CIF resources, the financial matrix was modified to 79.35% (IDB) and 20.65% (Counterpart). The current request for US$7 million additional financing from the IDB will change the financing matrix to 82.9% (IDB) and 17.1%(Counterpart) which is an improvement over the original matrix.

***viii. The country must be current on its payments to the Bank, in accordance with the policy in effect.***The country is current with its payments to the Bank as of May 2018.