

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BELIZE**

**GEORGE PRICE HIGHWAY REHABILITATION**

**(BL-L1019)**

**PROPOSED MODIFICATION TO  
LOAN 3344 / OC-BL**

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## ABBREVIATIONS

CIF	Caribbean Investment Facility
EA	Executing Agency
EC	European Commission
EIRR	Economic Internal Rate of Return
EU	European Union
GOB	Government of Belize
GPH	George Price Highway
GPN	General Procurement Notice
IA	Implementing Agreement between the Government of Belize and the European Commission for the Caribbean Investment Facility Contribution
IDB	Inter-American Development Bank
LP	Loan Proposal
M	Millions
MA	Management Agreement between the European Commission and the Inter-American Development Bank
MOW	Ministry of Works
OC	Ordinary Capital
PEU	Project Execution Unit
OPC	Operations Policy Committee
PRAG	Practical Guide to Contract Procedures for European Union External Actions

UPDATED ELECTRONIC LINKS
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| <ol style="list-style-type: none"><li>1. <a href="#"><u>George Price Highway Rehabilitation. Loan Proposal.</u></a></li><li>2. <a href="#"><u>Draft Management Agreement</u></a></li><li>3. <a href="#"><u>Request for Loan Modification by the Government of Belize</u></a></li><li>4. <a href="#"><u>Annex to the “Practical Guide to Contract Procedures for EU External Actions” (the “PRAG”)</u></a></li></ol> |
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## I. PURPOSE

- 1.1 The purpose of this document is to request the Board of Executive Directors to approve the following two modifications to the Loan Proposal (LP) for the “George Price Highway Rehabilitation” project (BL-L1019, Loan Contract No. 3344/OC-BL): (i) a partial exception to the Bank’s “Policies for the procurement of goods and works financed by the IDB” (document GN-2349-9) and “Policies for the Selection and Contracting of Consultants Financed by the IDB” (document GN-2350-9), so that goods originating from non-IDB member countries are also eligible for procurement and suppliers, contractors, consultants and service providers from non-IDB member countries are allowed to participate in the procurement processes for activities to be financed both with resources from the IDB and the European Union (EU), provided that the country of origin of the goods and the nationality of such suppliers, consultants, contractors and service providers is recognized by the European Union as eligible; and (ii) an authorization to the President of the Bank, or a representative he shall designate, to distribute among the relevant Bank departments a fee to be received by the IDB from the EU in consideration for the fiduciary supervision tasks to be performed by the IDB under a management agreement to be signed between the IDB and the EU in connection with the project.

## II. BACKGROUND

### A. Project Background

- 2.1 The project objective is to substantially improve the road connectivity within Belize’s main districts and with Central America by rehabilitating part of the George Price Highway (GPH) road infrastructure to national standards.
- 2.2 On November 19<sup>th</sup>, 2014, the investment loan BL-L1019 was approved by the Inter-American Development Bank (IDB) Board of Executive Directors in the amount of US\$27,000,000.00 from the Ordinary Capital (OC) of the IDB. The estimated total cost of the approved project was the equivalent of US\$28,528,000.00, including US\$1,528,000.00 of local contribution by the Government of Belize (GOB). On November 17<sup>th</sup>, 2015, the Loan Contract No. 3344/OC - BL was signed by the GOB.<sup>1</sup>
- 2.3 The LP for the project contemplated the possibility of adding a grant from the Caribbean Investment Facility (CIF) of the European Union (EU), as a later contribution to co-finance the project.<sup>2</sup> On March 9<sup>th</sup>, 2015, the European Commission (EC) approved the CIF grant (EC Contribution), in the amount of €5 million, to be allocated to Component 1 - Civil Works and Maintenance (€4.8 million) and Component 3 - Engineering & Administration (€0.2 million).<sup>3</sup> On June 10<sup>th</sup>, 2015, the GOB and the EC signed an Implementing

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<sup>1</sup> The one year delay between the approval of the project by the IDB and the signing of the Loan Contract results from the process of preparing final designs and obtaining CIF additional resources for the project. Only after these two processes had made substantial progress, and conditions for execution were more advanced, the GOB decided to sign the Loan Contract.

<sup>2</sup> It was contemplated that the EU funds would be subject to the IDB’s formalization of all necessary internal approvals (paragraph 2.2 of the LP) ([UEL#1](#)).

<sup>3</sup> Component 1 of the project finances the civil works for the rehabilitation of the GPH and for the replacement of the Roaring Creek Bridge, as well as the supervision and two years of maintenance of the works once they are concluded, land acquisition, compensation, and utilities relocation. Component 3 finances engineering and administration activities for the project.

Agreement (IA)<sup>4</sup> pursuant to which the EC undertakes to transfer the contribution to be directly managed by the GOB for the implementation of certain activities in the project.<sup>5</sup> The IDB will not administer the EC Contribution; the latter constitutes parallel financing. However, funds from the IDB loan and the EC Contribution will be blended to finance activities under the project.

- 2.4 The EC and the IDB agreed to sign a Management Agreement (MA), specific for the implementation of the project, that outlines the procedures and the parties' obligations for the fiduciary supervision and monitoring of the use of the EC Contribution. The IDB will receive a fee from the EC under the MA ([UEL#2](#)).

## **B. Project Progress**

- 2.5 The project execution has had little progress<sup>6</sup> due to delays on the hiring process and preparation of the final engineering designs, funded by the Technical Cooperation ATN/OC-14681-BL. The designs were not completed until January, 2017. The bidding documents for works and their supervision are ready and tendering will be starting in March, 2017. The project is currently in compliance with the applicable environmental and social IDB Safeguard Policies.

## **C. Request Presented by the Government of Belize**

- 2.6 As stated in the Request for Loan Modification, sent to the IDB on June 15<sup>th</sup>, 2016, the GOB, as Borrower and representative of the Executing Agency (EA), informed the Bank of its decision to make the EC Contribution resources available to the BL-L1019 project ([UEL#3](#)). The GOB also requested to amend the Loan Contract No. 3344/OC-BL in order to make the necessary changes reflecting this decision.

# **III. PROPOSED MODIFICATIONS AND RATIONALE**

## **A. Rationale**

- 3.1 As a result of the €5 million EC Contribution provided as parallel financing, the estimated total cost of the project has increased from US\$28,528,000 to the equivalent of US\$34,028,000.<sup>7</sup> The aggregated project costs and sources of funds are showed in the following table.

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<sup>4</sup> It is contemplated to amend the IA in order to make it consistent with the Management Agreement (MA) and this loan modification.

<sup>5</sup> The IA contemplates that the EC will transfer the EC Contribution to Belize in two equal pre-financing payments, in accordance with the applicable EC policies, rules and procedures.

<sup>6</sup> To date, only US\$173,361 (0.64%) has been disbursed.

<sup>7</sup> An indicative exchange rate of €1=US\$1.10 has been used to estimate the amount in US Dollars equivalent to the amount of €5,000,000 added to the project cost. The final cost of the project in US Dollars will depend on the exchange rate applicable at the time the resources of the EC Contribution denominated in Euros are converted into US Dollars.

**Table 1.** Detailed budget by activity - in millions.

Component	IDB	CIF		Local	Total
	(USD)	(EUR)	(USD)	(USD)	(USD)
<b>Component 1. Civil Works and Maintenance</b>	<b>23,954</b>	<b>4,800</b>	<b>5,280</b>	<b>1,528</b>	<b>30,762</b>
Replacement of Roaring Creek Bridge including approaches	3,476	2,600	2,860	-	6,336
Rehabilitation of GPH, environmental and social mitigation measures, utilities relocation	18,522	2,200	2,420	-	20,942
Construction supervision	1,800	-	-	-	1,800
Two years of maintenance	156	-	-	156	312
Land acquisition	-	-	-	1,372	1,372
<b>Component 2. Institutional strengthening</b>	<b>400</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>400</b>
MOW strengthening	400	-	-	-	400
<b>Component 3. Engineering and Administration</b>	<b>2,646</b>	<b>200</b>	<b>220</b>	<b>-</b>	<b>2,866</b>
Administration (PEU Staff)	1,747	-	-	-	1,747
Studies and designs	449	-	-	-	449
Monitoring & evaluation	350	-	-	-	350
Communication Strategy and Financial Audits	100	200	220	-	320
<b>Total</b>	<b>27,000</b>	<b>5,000</b>	<b>5,500</b>	<b>1,528</b>	<b>34,028</b>

- 3.2 The project cost originally indicated in the LP was estimated during the preparation phase and based on available preliminary designs. The final engineering designs, using the detailed hydrological analysis and geological studies, consider some technical improvements to those preliminary designs, including more rigid climate change adaptation aspects, improved road characteristics and additional road safety elements on the GPH. Some elements of the drainage systems, such as major culverts and minor bridges, have enhanced dimensions or geometry; a new roundabout was included at a major intersection; and the design of the Roaring Creek Bridge saw improvements to its foundation, geometry and river bed clearance. The EC Contribution added to the project budget will be complementing IDB resources, by supporting the financing of works, goods and services under Component 1, which includes covering the additional costs resulting from the improved design aspects.<sup>8</sup>
- 3.3 There are no changes to the objective, scope, key financing terms or parties of the project. The Results Framework comprising the complete set of outputs, results and indicators previously designed will also remain the same. Neither will the execution mechanisms or the Implementation & Management Plan be altered.
- 3.4 The IDB will not administrate the EC Contribution; therefore, the Framework Administrative Agreement (document GN-2605-2) signed between the EU and the IDB on June 10th, 2015 will not apply. The relationship will be formalized through the MA, specific for this project, to be signed upon approval of the present proposed loan modification. Such MA will be signed pursuant to Section 3.2 of the Administrative Manual of the Bank (AM-120).

<sup>8</sup> The cost-benefit analysis done for the original project concluded it had a Net Present Value US\$38.59 million at a discount rate of 12.0%, and an Economic Internal Rate of Return (EIRR) of 36.2%. The sensitivity analysis concluded that with a 30% increase of costs, the project shows a positive economic result, with EIRR above 12%. The EC Contribution represents an increase of 24% in investment costs for the rehabilitation of the GPH road and the replacement of Roaring Creek Bridge. However, a new cost-benefit analysis was performed, considering the new total cost of the project, which resulted in an EIRR of 26%.

- 3.5 The procurement and contracting processes for the acquisition of goods, works, services and consultancies will be carried out in accordance with IDB policies and procedures. However, the funds of the IDB and of the EC Contribution will be blended for purposes of procurement of civil works under Component 1 (the rehabilitation of the GPH and the bridge); thus, a partial exception to the IDB's procurement policies is needed, so that suppliers, contractors, consultants and service providers, as well as goods originating from non-IDB member countries recognized as eligible by the EU, can also be eligible for procurement processes applicable to activities to be jointly financed by IDB resources and the EC Contribution under the project.
- 3.6 It is contemplated under the MA that the IDB would receive and distribute among relevant Bank departments a fee equivalent to 4% of the EC Contribution. The purpose of the fee is to recover costs of the IDB in performing a fiduciary supervision role under the MA, to support the Executing Agency (EA), which will be responsible for administering and executing the EC Contribution aggregated to the project. Such fee will be distributed among the Bank's departments.
- 3.7 The EA will be allowed to present the justification of advances of funds once 70% of the total amount of resources disbursed has been justified, instead of the 80% threshold indicated in the Loan Contract. The purpose of this change is to align conditions for the advance of funds set forth in the IA and in the IDB Loan Contract. Management has agreed to this change in accordance with the IDB Financial Management Guidelines OP-273-6, currently in effect.<sup>9</sup>

#### **B. Proposed Modification**

- 3.8 As explained in paragraph ¶3.5, a partial exception to Bank procurement policies is introduced. Procurement of goods and works and of consulting services to be financed with project resources will be carried out by the EA in accordance with the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9), and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), both dated March, 2011, with the following exception: goods originating from non-IDB member countries will be eligible for procurement, and suppliers, contractors, consultants and service providers from non-IDB member countries will be allowed to participate in the procurement processes for activities to be financed under the project, provided that the country of origin of the goods and the nationality of the suppliers, contractors and service providers are recognized as eligible by the EU, as indicated in the "Practical Guide to Contract Procedures for EU External Actions" (PRAG) ([UEL#4](#)).
- 3.11 Once the modifications set forth above are approved by the Board of Executive Directors, the Loan Contract No. 3344/OC-BL will be amended accordingly.

#### **IV. RECOMMENDATION**

- 4.1 On the basis of the evidence and documentation presented by the borrower, as well as the analysis presented in the sections of the present document, Management recommends that, in accordance with the Operations Administration Regulations OA-430 (Substantial and Fundamental Change to Operations), Section B, item 5, and the provisions set forth in paragraph 3.29, clause (c) of document DR-398-17 (Regulations of the Board of Executive Directors of the Inter-American Development Bank), as well as paragraph 6 of document CS-3953-2 (List of matters to be considered by the Board via Short Procedure), the Board

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<sup>9</sup> The Financial Management Guidelines OP-273-6 were adopted by the Bank after the signature of the Loan Contract.

of Executive Directors approves, via Short Procedure, the partial exception to the IDB procurement policies indicated in ¶3.8 of the present document.

- 4.2 Furthermore, Management recommends that the Board of Executive Directors authorizes the president of the Bank, or his designee, to distribute among relevant departments, the fee to be received by the Bank under the MA.
- 4.3 The corresponding modifications will be reflected, as applicable, in an amendment to the Loan Contract No. 3344/OC-BL.