Project Completion Report

Policy-Based Loan

PCR

Project Name: Macroeconomic and Public Financial Sector Reform Program

Country: Belize

Sector/Subsector: Modernization of the State / Financial Sector Reform

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Loan Number(s), TC(s): 1817/OC-BL

Project Number(s): BL-L1001

QRR Date: October 7, 2009

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PCR Team: Principal Author and Members: Olver Bernal (ICF/CMF), Project Team Leader; Francisco Demichelis (ICF/CMF); and Annabella Gaggero (ICF/CMF).

Acronyms and Abbreviations

BMC	Belize Mortgage Company
CARICOM	Caribbean Community and Common Market
CBB	Central Bank of Belize
CDB	Caribbean Development Bank
CESI	Committee on Environment and Social Impact
DFC	Development Finance Corporation
EIB	European Investment Bank
FONDEN	Fondo de Desastres Naturales
GDP	Gross Domestic Product
GOB	Government of Belize
IDB	Inter-American Development Bank
IMA	Independent Macroeconomic Assessment
IMF	International Monetary Fund
MND	Ministry of National Development
MOF	Ministry of Finance
NAS	North American Securitization
PBL	Policy-Based Loan
PRODEV	Program to implement the external pillar of the medium term action plan for development effectiveness
SSB	Social Security Board

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Annexes

I. Basic Information

BASIC DATA (AMOUNTS IN US$)	
PROJECT NO: BL-L1001 LOAN(s): 1817/OC-BL Programmatic [ ] Yes [X]No If yes, list all related Project and Loan Numbers: __________	TITLE: Macroeconomic and Public Financial Sector Reform Program
Borrower: Government of Belize Executing Agency (EA): Ministry of Finance	Date of Board Approval: December 6, 2006 Date of Loan Contract Effectiveness: December 15, 2006 Date of Eligibility for First Disbursement: December 18, 2006
Sector: Modernization of the State/Financial Management Reform	<u>Months in Execution</u> * from Approval: 12 months * from Contract Effectiveness: 13 months <u>Disbursement Periods</u> Original Date of Final Disbursement: December 12, 2008 Current Date of Final Disbursement: November 29, 2007 Cumulative Extension (Months):
Social Equity (SEQ): Yes/No Environmental Classification: A, B, or C	
	<u>On Alert Status</u> Is project currently designated "on alert" by PAIS? No If yes, then why is the project on alert (DO , IP Ratings and/or relevant PAIS indicators): Comments on relevance of "on alert" status for this project (if applicable):

Summary Performance Ratings				
DO	[ ] Highly Probable (HP)	[X] Probable (P)	[ ] Low Probability (LP)	[ ] Improbable (I)
IP	[ ] Very Satisfactory (VS)	[X] Satisfactory (S)	[ ] Unsatisfactory (US)	[ ] Very Unsatisfactory (VU)
SU	[ ] Highly Probable (HP)	[X] Probable (P)	[ ] Low Probability (LP)	[ ] Improbable (I)

II. The Project

a. Project Context

Since 1998 the Government of Belize (GOB) has sought to accelerate economic growth through expansionary fiscal and monetary policies. The economy grew around 6% between 1999 and 2004 at the cost of an annual fiscal deficit averaging 9% of GDP and an increase in the level of external debt to more than 90% of GDP.

Due to the high levels of public expenditure and debt, as well as some external shocks, since 2004 the macroeconomic situation of the country (8.7% of fiscal deficit and 100.2% of public debt) was of grave concern for some rating agencies. Consequently,

Belize's debt classification was lowered to Caa from B3 and market risk premia was increased. The sovereign credit ratings of Belize were sharply downgraded by Moody's and S&P to just a few steps above default, which reflected the concerns of the market about the unsustainable level of the external obligations in the short and medium term.

During that period, one of the policies used by the Government to bolster the economy was to fund credit and investment projects through the Development Finance Corporation (DFC). This caused an expansion of the DFC's loan portfolio, some of them of dubious recovery, which were financed with external and domestic borrowing that the DFC was not in position to repay. Thus, the DFC played a major role in the unsustainable accumulation of debt and was a major drain to public finances. To solve this problem, the GOB decided to assume the payment of some of the DFC's obligations generating serious problems for the public finances.

Considering this background, it was concluded that the main problems of Belize were: (i) the need to reestablish its macroeconomic stability (ii) the need for relief on the high debt service burden and (iii) the resolution of the failed DFC. To this end, the GOB decided to carry out a macroeconomic adjustment process without a formal IMF support, although in close consultation and advice from the Fund. The authorities' program sought to strengthen the fiscal position in order to meet the external debt obligations, as well as to improve the investment climate and confidence. This operation aimed at helping the country in that process.

b. Project Description

i. Development Objective(s)

The general objective of the Program was to assist the Government of Belize in implementing a reform agenda aimed at restoring macroeconomic and financial stability, as well as improve investor climate confidence. Consistent with this objective, the operation intended to provide support to: (i) improve the fiscal position and debt management policies to reduce external vulnerability; (ii) implement an action plan to conclude the lending and direct investment project of the Development Finance Corporation (DFC) and liquidate its assets; (iii) adopt an oil tax regimen; and (iv) implement the General Sales Tax (GST) and Customs Reform in order to increase the revenue collection and bring the fiscal deficit down to sustainable levels.

ii. Project Description

The operation was designed as a Policy-Based Loan (PBL). The PBL was intended to support the adoption and implementation of a series of reforms gathered in the following components: 1. a Macroeconomic Framework consistent with the objectives of the Program; 2. Management of the Oil Revenues; 3. Public Debt Sustainability; 4. closure of the lending and direct investment project activities as well as the liquidation of the assets of the DFC; and 5. Fiscal Reform Agenda. The policy matrix of the Program described the expected outcomes and the conditions for each tranche of disbursement.

The first tranche was disbursed on December 15, 2006 for the amount of 10 million and the second tranche for the remaining 15 million on November 29, 2007.

iii. Components

The operation was implemented through five components, whose completion was condition prior to the disbursements.

Component 1. Macroeconomic Framework and Policy Letter
Component 2. Management of the oil revenues
Component 3. Public Debt Sustainability
Component 4. Liquidation of the Development Finance Corporation (DFC)
Component 5. Fiscal Reform Agenda

III. Results

a. Outcomes

<table>
<tr><th colspan="2">ACHIEVEMENT OF DEVELOPMENT OBJECTIVES (DO):</th></tr>
<tr><td>Development Objective(s) (Purpose)</td><td>To contribute to restoring Belize's macroeconomic and financial stability, as well as improve investor climate confidence, and maintain sustainable debt levels.</td></tr>
<tr><td colspan="2">1. Macroeconomic Framework and Policy Letter. The objective pursued with this component was the improvement of the country's fiscal and external debt positions. During the execution of the operation, as a condition for the disbursement of the tranches, the Government of Belize had to maintain a macroeconomic environment consistent with the objectives of the Program, as set out in the Policy Letter of November 14, 2006. Given the fact that Belize did not have a formal IMF-supported program, the Bank reached an agreement with the GOB to monitor some key macroeconomic indicators, which were used to undertake an Independent Macroeconomic Assessment (IMA) on an ongoing basis and prior to each disbursement, in close coordination with the IMF.

The Bank's IMA released at the time of the first tranche's disbursement concluded that the macroeconomic situation was stronger than that at the time the PBL was approved. However, the analysis also recognized that Belize had significant macroeconomic vulnerabilities and risks that would require continued careful management.

Classification: HP</td></tr>
<tr><td>Key Planned Outcome Indicators

The primary and total surplus/deficit improves as a percentage of GDP.

<u>Baseline</u>: 2% and 5.5% in 2005
<u>End of Project</u>: 4.5% and 1.5% in 2007</td><td>Outcomes Achieved

During the Program's execution period, tax measures and expenditure cuts have led to a sharp improvement in the central government's primary balance.

The selected indicators behaved as follows (as a percentage of GDP):</td></tr>
</table>

ACHIEVEMENT OF DEVELOPMENT OBJECTIVES (DO):

	Primary surplus/deficit: 2006: +4% 2007: +5.8% (first half of the year) Total surplus/deficit: 2006: -1.8% 2007: -0.9% Projections for fiscal years 2007/08 and 2008/09 were: Primary surplus/deficit: 2007/08: 3.3% 2008/09: 3.3% Total surplus/deficit: 2007/08: -1.4% 2008/09: +1.3% These projections suggest a closing of gaps in the medium term.

2. **Management of the oil revenues.** This component was intended to support the adoption and implementation of an oil tax reform aimed at ensuring a more efficient and transparent fiscal management of oil revenues. Given the oil discoveries and the impact they were to have on fiscal revenue, it was crucial to secure a rational management of these resources.

Disbursement of the first tranche was conditional to the approval by Parliament of the new Oil Tax Law. Disbursement of the second tranche was conditional to: a) the opening of a special account at the Central Bank to manage oil revenues; and b) the inclusion of projected oil revenues into the Budget.

After the Program was approved, under the assumption of important oil revenues, the Government decided to go beyond this objective and establish a Petroleum Revenue Management Fund. The Fund was designed to ensure that the windfall income expected from the oil industry was saved rather than spent. The Petroleum Revenue Fund Management Bill was tabled in the House of Representatives on 25 May 2007, and approved by both the House of Representatives on August 31, 2007, and the Senate on September 7, 2007. The Bill was signed into law by the Governor General (Act No.16) and published in the Government Gazette on October 9, 2007. However, because of the less than expected oil revenues, the Fund was not implemented, but the two conditions mentioned above were accomplished.

Classification: HP,

Key Planned Outcome Indicators		**Outcomes Achieved**
Baseline Oil income: US$0 in 2005	End of Project Oil income: US$15.6 million in 2007	Oil income 2006: US$5.6 income tax (paid in 2007) 2007: US$10.0 income tax (projected for 2007) US$4.0 royalties (projected for 2007) Budget presentation for Fiscal Year 2007/08 by Prime Minister – March 2, 2007 (http://www.governmentofbelize.gov.bz/budget_speech_07_08.pdf) In 2007, and up to the Act's coming into force, both the royalties and the income tax were being paid into the Consolidated Fund of the Government at the Central Bank of Belize. No other receipts from the Petroleum Industry were being set aside or deposited into any other special account or Fund.

3. **Public Debt Sustainability.** Debt service obligations place a heavy burden on public finances. The primary objective of this component was to improve debt management and seek possible debt service relief from external creditors to bring down public debt to sustainable levels. This action would help avoid a crisis of the balance of payments and a loss of confidence in the exchange rate. To this end, the GOB reached an agreement with external advisors for a medium term debt strategy in order to modify debt service commitments to sustainable levels.

Disbursement of the first tranche was conditional to the formal presentation to creditors of the Government's debt restructuring proposal. Disbursement of the second tranche was conditional to reaching agreement for restructuring of the public debt with most if not all its external commercial creditors.

Classification: HP

ACHIEVEMENT OF DEVELOPMENT OBJECTIVES (DO):

Key Planned Outcome Indicators	Outcomes Achieved
The country's public debt is reduced as a percentage of GDP. Baseline: 2005: 98.5% End of Project: 2007: 89%; 2010: 72.7%	Public debt as a percentage of GDP (source: IMF): 2007: 88.6% 2009: 75.6% (projected) The Government of Belize successfully restructured its commercial debt. Debt exchange was completed on 20 February 2007 with a participation rate of 98.1% of all eligible commercial creditors. Belize's creditors agreed to exchange their existing instruments for a new US Dollar bond with the following terms and conditions: (i) a duration of 22 years with a final maturity in February 2029; (ii) principal repayments in equal semi-annual installments beginning in August 2019; (iii) a step-up interest rate structure with 4.25% payable in years 1-3; 6.00% payable in years 4-5; and 8.50% payable from year 6 through to maturity; and (iv) the government may redeem the bonds at face value at any point after the end of the grace period. Late tender have increased the participation rate to 98.6% at end of May 2007. The restructuring has resulted in an improved outlook for the future. Belize's debt service profile has been transformed from one that was unsustainable to one that is more sustainable. There are no more spikes reflecting imminent bullet payments or put options. The new debt service profile provides Belize with considerable net cash flow relief between 2007 and 2015 amounting to US$481.5 million.

4. **Liquidation of the Development Finance Corporation (DFC).** The objective of this component was to ensure that the liquidation of the DFC proceeded in an orderly way and that the DFC did not become a direct burden on the Central Government again. To this end, the GOB implemented a plan for: (i) the termination of the DFC's lending and borrowing operations, direct investment projects and all its financing activities; (ii) an orderly liquidation of its assets; and (iii) paring down its functions to the minimum operational capacity required to perform its role under the North American Securitization (NAS) documents and the liquidation of assets.

Disbursement of the first tranche was conditional to the compliance of the following: (i) the DFC Act has been amended to: (a) pare down its functions to the minimum operational capacity required to perform only its functions under the North American Securitization documents; and (b) extinguish its authority to provide new loans, carry out new direct investment projects, or incur additional indebtedness or any other function not related with those referred in paragraph (a); and (ii) a forensic auditor for the DFC has been selected by the Government.

Disbursement of the second tranche was conditional on the compliance of the following: (i) the DFC has extinguished its lending, borrowing and direct investment project activities and any other activity not related with the NAS documents; (ii) the DFC has closed, at least, two additional branches and reduced the level of staff to 45 employees to perform only the functions of NAS; and (iii) forensic audit has been completed, and made public.

In November 2006, the DFC Act was amended to limit the powers of the organization to the administration of the North American Securitization (NAS) transaction, and to perform all other functions required under pre-existing contractual or other arrangements. The Corporation could not borrow any new money or provide any new loans. Consistent with these revised objectives, DFC's management examined the organizational structure to make it more in line with the its new mandate. The staff reorganization of the DFC continued until December 2007.

It is important to mention that the authorities supported the existence of special development credit and endorsed the idea of keeping the DFC open. The Bank agreed that a clear, well-targeted, and focused subsidy policy could be implemented through the existing financial entities and not through a first tier public bank that could risk repeating the DFC's failed history.

Classification: HP

Key Planned Outcome Indicators	Outcomes Achieved
Putting and end to the need of governmental budget support to the DFC. Temination of all DFC's new lending operations. Baseline: N/A (2005) End of Project: New loans since December 2007: 0	The loan portfolio administered by the DFC continued to reduce at ending June 2007 in both number and value. A marked improvement was also achieved in the arrears and non-performing positions. The collections target was realized as well. An overview showed that DFC attained positive results for the first half of the year. The portfolio stood at 3,760 loans for a value of Bz$156.8 million at end of June 2007. The number and value of loans showed a declining trend over the previous six months. At the end of December 2006, the portfolio was recorded at 4,147 loans for a value of BZ$188.8 million. The

ACHIEVEMENT OF DEVELOPMENT OBJECTIVES (DO):	
	portfolio declined by BZ$32 million over this period, mainly as a result of accelerated loan collections and loan write-offs consistent with DFC's policy. The portfolio's non-performance position at end of June 2007 stood at 23.2% in contrast to 32.2% at ending December 2006. Also, the principal arrears position at ending June 2007 was recorded at 6.5% or BZ$10 million. This was the best recorded position in two years and was within reach of DFC's goal of 5% principal arrears. Total liabilities also decreased from BZ$187 million to BZ$167 million. Finally, the budget cost was BZ$4 million, below the target of BZ$4.5 million. New loans granted by the DFC since December 2007: 0* *Loans disbursed and portfolios purchased as of December 2008 equal cero, as stated in the Consolidated Financial Statements for the Years Ended December 31, 2008 and 2007 and Independent Auditor's Report.

5. **Fiscal Reform Agenda.** The objectives of this component was to: (i) strengthen the tax regime through the introduction of the General Sales Tax (GST); (ii) implement seven of the most important measures recommended by the Public Expenditure Review and Revenue Systems Studies financed by the Bank[1]; and (iii) establish a master plan for reforming the customs regime. The GOB indicated its intention to prepare a master plan and schedule for the customs regime reform (to maximize efficiency in the customs clearance process).

Disbursement of the first tranche was conditional to the compliance of the following: (i) the implementation of the GST; and (ii) the enactment of three recommendations of the Public Expenditure and Revenue Systems Reports (raise in business tax rates, sales tax on electricity sales to households, and business tax on commercial free zones and export processing zones).

Disbursement of the second tranche was conditional to the Government's approval of a master plan and its schedule for reforming the custom regime, and the implementation of four recommendations of the Public Expenditure and Revenue Systems Reports (modernization of the payroll system, strengthening of the budget analysis unit, reduction in domestically financed capital expenditures, and a unique taxpayer identification number system).

Classification: HP

Key Planned Outcome Indicators		Outcomes Achieved
Total fiscal income rises as a percentage of GDP.		Total fiscal income (source: IMF):
Baseline 2005: 23.5%	End of Project 2007: 26%	2007: 27.4% 2009: 28.4% (projected)

Reformulation: [X] N/A

PPMR Retrofitting: [X] N/A

Summary Development Objectives Classification (DO):			
[x] Highly Probable (HP)	[ ] Probable (P)	[ ] Low Probability (LP)	[ ] Improbable (I)

b. Externalities

Change of Government in February, 2008.

c. Disbursements

DISBURSEMENT TRANCHES				
Tranches	**Amount (US$000)**	**Expected Date**	**Actual Date**	**Waiver Granted Yes/No**
I	10,000	December 15, 2006	December 15, 2006	No
II	15,000	December 12, 2008	November 29, 2007	No

[1] Belize: A Review of Public Expenditures (http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=831589).
Fiscal Adjustment for Sustainable Growth in Belize (http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=818067).

d. Outputs

IMPLEMENTATION PROGRESS (IP)	
Thematic Areas/Components:	**Key Conditionalties/Output Indicators:**
Component 1: **Macroeconomic Framework and Policy Letter.** Classification**:** Satisfactory	**Outputs Achieved** The disbursement of the two tranches was conditional to the maintenance of a sound macroeconomic framework, as set out in the Policy Letter of November 14, 2006.
Briefly explain differences between planned and actual outputs (if applicable). [X] N/A	
Component 2: **Management of the oil revenues** Classification: Satisfactory	**Outputs Achieved** For the satisfactory approval of the conditions specified in this component the GOB has: a) Approved the new Oil Tax Law that will ensure the transparent management of the oil revenue; b) opened a special account at the Central Bank to manage the oil resources; and c) included the projected oil revenue into the budget.
Briefly explain differences between planned and actual outputs (if applicable). [X] N/A	
Component 3: **Public Debt Sustainability** Classification: Satisfactory	**Outputs Achieved** For the satisfactory approval of the conditions specified in this component, the GOB: a) Formally presented to creditors the Government's debt restructuring proposal, and b) reached an agreement for restructuring the public debt with its external commercial creditors.
Briefly explain differences between planned and actual outputs (if applicable). [X] N/A	
Component 4: **Liquidation of the Development Finance Corporation (DFC)** Classification: Satisfactory	**Outputs Achieved** For the satisfactory approval of the conditions specified in this component, the, GOB: a) Amended the DFC Act to: (i) pare down its functions to the minimum operational capacity required to perform only its functions under the North American Securitization documents; and (ii) extinguish its authority to provide new loans, carry out new direct investment projects, or incur additional indebtedness or any other function not related with those referred in (i); b) selected a forensic auditor for the DFC; and c) completed the forensic audit in February 2007, and made it public in July 2007. As well, the DFC: a) Extinguished its lending, borrowing and direct investment project activities and any other activity not related with the NAS documents; b) closed at least two additional branches and reduced the level of staff to 45 employees to perform only the functions of NAS.
Briefly explain differences between planned and actual outputs (if applicable). [X] N/A	

IMPLEMENTATION PROGRESS (IP)	
Component 5: **Fiscal Reform Agenda.** Classification: Satisfactory	**Outputs Achieved** For the satisfactory approval of the conditions specified in this component, the GOB: a) Implemented the General Sales Tax (GST). In 2009 the projected GST revenue represents more than 25% of the Central Government expected tax revenue. The current GST level is set at 10%. The authorities noted that enhanced computerization has increased efficiency in tax collection, and, to strengthen it further, efforts are underway to unify the tax administration and increase coordination across various departments. They will seek assistance from CARTAC to establish a computerized audit module for the GST; b) implemented three of the recommendations of the public expenditure and revenue systems reports (raised the business tax rates, established a sales tax on electricity sales to households, and created a business tax on commercial free zones and export processing zones); and c) approved the master plan for reforming the customs regime and the implementation of four of the recommendations of the public expenditure review and fiscal studies (the modernization of the payroll system, the strengthening of the budget analysis unit, the reduction in domestically financed capital expenditures, and the creation of a unique taxpayer identification number system). The Board of Executive Directors of the Bank granted a waiver with respect to the condition set in clause 3.05(IV)(b)(i) of the Special Conditions of loan contract 1817/OC-BL: "Special Conditions Precedent to the Disbursement of the Second Tranche of the Financing: Fiscal Reform Agenda: The Borrower has implemented the following recommendations from the public expenditure review (PER) and fiscal study: (i) modernization of payroll system. In order to meet this objective, the public expenditure review (PER) recommended the implementation of a detailed plan to link the payroll to the computer-based HRMIS. This task was delayed for the following reasons: (i) availability of the software development consultants; (ii) availability of local funding; and (iii) turnover of local staff. The Ministry of Finance reviewed the status of the project with the Implementation Team and allocated more financial resources for the consultancy fees and other project costs. The Ministry of Finance has taken certain actions to strengthen oversight and controls of the Government of Belize's payroll system. This has been accomplished through procedural improvements. Among other changes, cross checking controls have been put in place, including a process whereby the monthly payroll must now be certified by at least two officers at the Ministry level and then confirmed by the Treasury Department staff.
Briefly explain differences between planned and actual outputs (if applicable). [X] N/A	

Summary Implementation Progress Classification (IP):			
[ ] Highly Satisfactory (HS)	[X] Satisfactory (S)	[ ] Unsatisfactory(U)	[ ]Very Unsatisfactory (VU)

IV. Project Implementation

a. Analysis of Critical Factors

The Program was approved by the Bank's Board of Directors on December 6, 2006, as an instrument to support the Government of Belize in implementing a reform agenda aimed at restoring the country's macroeconomic and financial stability. By the end of 2006, the major burden to macroeconomic sustainability was the high indebtedness of the country, so the most important issue was to reach an agreement with creditors to reschedule the public debt. Despite the new fiscal revenues produced by the oil sector, it was necessary to adopt a strong fiscal adjustment.

Given the country's high risk of default, the resources of this Program supported a balance of payments shortfall and contributed to the favorable result of the Debt Rescheduling Program. Belize carried out the Rescheduling Program in a fully transparent and co-operative manner obtaining a positive response from creditors to the

exchange offer. The Debt Rescheduling Program was a success, with the participation of more than 93% of all commercial creditors. It provided a significant degree of debt relief to Belize and firmly placed the country's debt service profile on a sound and sustainable footing. The new bonds issued by Belize will amortize in equal and semi-annual installments commencing 2019, with final maturity due 2029. There are risks that should be highlighted in the macroeconomic scenario. Medium-term growth prospects could be adversely affected by a slowdown in the global economy, especially through the impact on domestic and foreign investment, which have been a source of growth in recent years. In order to control the level of indebtedness, further restraint in spending and higher tax revenues are needed; in particular, increased tax revenue from the oil sector.

b. Borrower/Executing Agency Performance

The Government executed an ambitious agenda of reforms in a short period of time. The role of the Ministry of Finance in the executing team was significant to push the reforms and to coordinate with different agencies. This was an advantage for the coordination with different government agencies implicated in the execution of the reforms.

Borrower/Executing Agency			
[ ] Highly Satisfactory (HS)	[X] Satisfactory (S)	[ ] Unsatisfactory (U)	[ ] Very Unsatisfactory (VU)

c. Bank Performance

Please refer to Annex 5 for detailed information.

Bank Performance			
[ ] Highly Satisfactory (HS)	[X] Satisfactory (S)	[ ] Unsatisfactory (U)	[ ] Very Unsatisfactory (VU)

V. Sustainability

a. Analysis of Critical Factors

As mentioned before, the main critical factor at the end of 2006 for the macroeconomic sustainability of Belize was the heavy burden imposed by the high indebtedness of the country and a clear risk of default. This propelled the authorities to undertake a "voluntary" debt negotiation with the private sector without a formal IMF macroeconomic program, resulting in a stronger commitment of the GOB towards the success of the debt restructuring program.

Much progress was achieved for the majority of the Program's components. However, the sustainability of the development objectives of Component 4: Liquidation of the Development Finance Corporation (DFC) is in jeopardy due to a reversal in the political decision to liquidate and close it. Time will determine the success of the new structures and controls placed on the DFC in preventing the institution from becoming again a fiscal burden to the country.

b. Potential Risks

Although the debt renegotiation was highly successful in averting a default and macroeconomic crisis in early 2007, the terms of the resulting super-bond constitute a potential risk to the sustainability of the achievements of the debt component. First, the super-bond carries a below market interest rate from 2007 to 2012, but an interest rate of 8.5% from 2012-2029. Thus, most of the gains in the reduction of the net present value of Belize's debt obligations will have been obtained by 2012, weakening the incentives for the government to continue to abide by the agreement for the period 2012-2029, unless US inflation and world interest rates strongly pick up in that period. Second, the government does not have the ability to pre-pay the debt, which will amortize between 2019 and 2029. Since the super-bond constitutes slightly over half of Belize's total external debt, achieving reductions in the debt-to-GDP ratio will have to rely on constraining the non-super-bond part of external debt: loans from official creditors. Since such loans are at lower interest rates and bring development benefits, this is a less than optimal situation. These considerations raise the probability that the government will sooner or later seek to renegotiate the super-bond and may explain why spreads on Belize's super-bond have remained at approximately 1,200 basis points throughout most of 2009, even while the spreads on other countries' bonds have diminished significantly since early 2009.

Also, a new government was sworn-in in February 2008. Under this new government, there is a potential risk that the reforms undertaken with this operation along with their positive outcomes would be undone. In fact, in December 2008 DFC's authority to provide new loans was reinstated and the GOB received financing from the Caribbean Development Bank to recapitalize it.

c. Institutional Capacity

Sustainability Classification (SU):			
[X] Highly Probable (HP)	[ ] Probable (P)	[ ] Low Probability (LP)	[ ] Improbable (I)

VI. Monitoring and Evaluation

a. Information on Results

The project included a results matrix in which all the activities and reforms to be implemented in each component as well as their expected outcomes were described. Please, refer to section III a. for an analysis of results.

The Program was highly successful in helping Belize navigate through a very difficult macroeconomic situation and in averting either a default on private external debt or a generalized macroeconomic crisis. In addition to the funding provided by the Program, this operation played an important role in signaling to investors and the international community that the government's adjustment program had the backing of the Bank.

b. Future Monitoring and Ex-Post Evaluation

No ex-post evaluation was required for this operation.

VII. Lessons Learned

The following aspects were critical to the success of the Program:

1. The full commitment of the authorities in implementing all the structural changes. The team considers this was the main factor that contributed to the outstanding execution of the Program.
2. The executing agency must have full commitment with the reform program.
3. The Bank's role in achieving consensus for the reform among the private institutions involved in the negotiations was critical, along with the provision of high quality analytical input, which was essential to the dialogue process.
4. A good knowledge of the country and good policy dialogue.

In the absence of a program with the International Monetary Fund (IMF), the PBL set out macroeconomic targets or benchmarks in three areas that could be tracked during the life of the Program: primary balance, minimum net international reserves, and limits on new commercial debt. The country comfortably met the benchmarks, which were tracked in the 2007 IMA and used for the assessment of the macroeconomic framework prior to disbursement of the second tranche.

The use of the macroeconomic benchmarks was arguably a positive experience. They contributed to the credibility of the Program before the Board of Directors, although it could have raised concerns about the division of labor with respect to the IMF. It also provided a signaling mechanism to the government regarding how the Bank would evaluate the macroeconomic framework. Although not tested in the event, the a priori quantification of benchmarks could have provided the Bank with stronger grounds for a negative evaluation of the macroeconomic framework, should it have been needed. The specification of the benchmarks as inputs to the evaluation rather than binding conditions increased their acceptability and provided useful flexibility and discretion to the Bank.

In addition to the permanent follow up of the country's macroeconomic conditions by CID staff (IMA and country program), it would be important that the Bank maintains a permanent dialog with the financial authorities and provides technical assistance on financial sector development and supervision as well as on the promotion of extended access to financial services, in particular for MIPYMES and low income families.

Annex 1

BELIZE – MACROECONOMIC AND FINANCIAL SECTOR REFORM PROGRAM (BL-L1001)

POLICY MATRIX

	Problems	Program Objectives	Impact	Prior actions before the First Tranche of Disbursement [1]	Means of Verification	Second Tranche of Disbursement	Means of Verification
Macroeconomic Framework	Macroeconomic stability is fragile.	Restore Belize's macroeconomic and financial stability and to improve investor climate confidence.	Improve fiscal and external position.	Adherence to a sound macroeconomic framework consistent with the objectives of the Program and the Policy Letter.	Quarterly assessment of targets included in the Policy Letter.	Adherence to a sound macroeconomic framework consistent with the objectives of the Program and the Policy Letter.	Quarterly assessment of targets included in the Policy Letter.
Oil Revenue Management	Given the recent oil discoveries and the impact they will have on fiscal revenue, it is crucial to secure a rational management of these resources.	Create a fiscal framework for a more transparent management of the oil revenues.	Increase further government revenues from the oil sector to strengthen the fiscal position.	New oil tax law, that will ensure the transparent management of the oil revenues through the national budget, has been approved by the Parliament.	Oil tax law published in the Government Gazette and put into effect.	Opening of a special account at the Central Bank to manage the oil resources and included in the National Budget.	Copy of the budget.
Public Debt Sustainability	The viability of the balance of payments is at risk due to the high level of public and external debt. Debt service place a heavy burden on public finances.	Improve public debt management and seek possible debt service relief from external creditors to bring down public debt to sustainable levels.	Avoid a crisis of the balance of payments crisis and loss of confidence in the exchange rate	The Government has made a formal presentation to creditors of its debt restructuring proposal.	Copy of the proposal.	The Government of Belize has reached an agreement for public debt restructuring with external commercial creditors.	Report of the Ministry of Finance.

[1] All the conditions for the first disbursement should be met prior to submission of the loan for Executive Board approval.

Annex 1

	Problems	Program Objectives	Impact	Prior actions before the First Tranche of Disbursement [1]	Means of Verification	Second Tranche of Disbursement	Means of Verification
Fiscal Reform	The fiscal position is unsustainable due to the high level of public debt and weak tax effort.	Strengthen tax and custom regime in order to improve efficiency and to implement the recommendations of the comprehensive review of public expenditure.	Reduce the fiscal deficit	The General Sales Tax (GST) has been approved and put into effect. The following recommendations from the public expenditure review (PER) and fiscal study funded by the Bank have been implemented: 1)Raise in business tax rates; 2) Sales tax on electricity sales to households; and 3) Business tax on new entrants to Export Zones.	GST law has been published in the Government Gazette and put into effect. Publication in the Government Gazette	A master plan and schedule for reforming the Customs administration has been approved by the Parliament. The following recommendations from the public expenditure review (PER) and fiscal study funded by the Bank have been implemented: 1) Modernization of payroll system; 2) Strengthening of the budget analysis unit; 3) Reduction in domestically financed capital expenditures, and 4) A unique taxpayer identification number system.	Copy of the approved master plan for reforming the custom regime. Publication in the Government Gazette

Annex 1

	Problems	Program Objectives	Impact	Prior actions before the First Tranche of Disbursement [1]	Means of Verification	Second Tranche of Disbursement	Means of Verification
Liquidation of the DFC	Financial position of the DFC is worrisome because of contingent fiscal liabilities and high level of non-performing loan portfolio.	Start the orderly liquidation of the assets of the DFC, eliminate its primary purpose of supply financing, limit the scope of its functions proceeding to its closure and hire a forensic audit of the financial institution.	Eliminate the needs for DFC budget support from the Government	An amendment to the DFC Act has been approved by the Parliament and has entered into effect by which: (i) DFC pare down its functions to the minimum operational capacity required to perform its function under the North American Securitization (NAS) documents; and (ii) extinguish its authority to originate new loans, carry out direct investment projects, incur additional indebtedness or any other function not related with those referred in paragraph (i).	DFC Act amendment has been approved by the Parliament, published in the Government Gazette and it has entered into effect.	DFC has extinguished its lending, borrowing and direct investment project activities and any other activity not related with the NAS documents; therefore: a) has continued to sale its assets –both loans and real estate; b) has closed, at least, two additional branches and reduced the level of staff to 45 employees to perform only the functions of NAS; c) has reduced the current operational budget from $ 6.2 million to $ 4.5 million in June 2007; and c) the Government has carried out the forensic audit of the DFC.	Compared to position at the end of June 2006, monthly financial statements demonstrate reduction in total assets and liabilities and no new lending, borrowing and direct investment projects. GOB progress report signed by external auditors indicating that a) the closure of two branches; and b) the cut of 24 employees has been implemented until June 07.
				A forensic audit for the DFC has been hired by the Government.	Evidence of the hiring of a Forensic Audit.	The Government has carried out the forensic audit of the DFC.	Report from the forensic auditors.

Annex 2

BELICE – PROGRAMA DE REFORMA MACROECONÓMICA Y DEL SECTOR FINANCIERO PÚBLICO (BL-L1001)

MATRIZ DE RESULTADOS

	Áreas de actividad		Medidas propuestas		Indicadores de impacto	
	Problemas	**Causa**	**Objetivos**	**Medidas**	**Provisionales**	**Finales**
Marco macroeconómico	La estabilidad macroeconómica es frágil	Mala administración fiscal y volumen excesivo de contratación de empréstitos (internos y externos) por parte del país	Restablecer la estabilidad macroeconómica y financiera y aumentar la confianza en el entorno para la inversión	Mantener un sólido marco macroeconómico acorde con los objetivos del programa y de la carta de políticas	Mejorar la situación fiscal y externa	El superávit/déficit primario y total mejora como porcentaje del PIB: Parámetro de referencia básico (2005: 2% y 5,5%; 2006: 3,2% y 3,3%) Meta: (2007: 4,5% y 1,5%)
Gestión de los ingresos petroleros	Habida cuenta de los yacimientos de petróleo recién descubiertos y de los efectos que tendrán en los ingresos fiscales, es esencial asegurar una gestión racional de estos recursos	Falta de claridad en la gestión de los ingresos petroleros	Establecer un marco fiscal para una gestión más transparente de los ingresos petroleros	El parlamento ha aprobado la nueva ley sobre el impuesto al petróleo, que asegurará la gestión transparente de los recursos del petróleo dentro del presupuesto de la nación	Aumentar los ingresos que obtiene el gobierno del sector del petróleo	Reforzar la situación fiscal. Ingresos petroleros. Parámetro de referencia básico (2005: 0,0; 2006: US$900.000) Meta (US$15,6 millones)
Sostenibilidad de la deuda pública	La viabilidad de la balanza de pagos corre peligro en razón de la elevada deuda pública interna y externa. El servicio de la deuda impone una pesada carga a las finanzas públicas	Volumen excesivo de contratación de empréstitos (internos y externos) por el país	Mejorar la gestión de la deuda pública y tratar de obtener de los acreedores externos un alivio del servicio de la deuda para reducir la deuda pública a niveles sostenibles	Acuerdo entre el Gobierno de Belice y los acreedores comerciales externos para la reestructuración de la deuda pública	Se reduce el servicio de la deuda externa	El endeudamiento total del país se reduce como porcentaje del PIB Se reduce la deuda externa como porcentaje del PIB Parámetro de referencia básico (2005: 98,5%) Meta (2007: 89%; 2010: 72,7%)

	Áreas de actividad		Medidas propuestas		Indicadores de impacto	
	Problemas	**Causa**	**Objetivos**	**Medidas**	**Provisionales**	**Finales**
Reforma fiscal	La situación fiscal no es sostenible en razón de la elevada deuda pública y del débil esfuerzo tributario	Mala administración fiscal y volumen excesivo de contratación de empréstitos (internos y externos) por el país	Reforzar el régimen tributario y aduanero para mejorar su eficiencia y aplicar las recomendaciones del análisis integral del gasto público	Se ha aprobado y ha entrado en vigor el impuesto general sobre las ventas. El parlamento ha aprobado un plan maestro y un cronograma para la reforma de la administración aduanera Se han puesto en práctica las siguientes recomendaciones de la revisión del gasto público y del estudio fiscal financiados por el Banco: (1) aumento de las tasas del impuesto sobre las actividades económicas; (2) impuesto sobre la venta de electricidad de uso domiciliario; (3) aplicar el impuesto a las actividades económicas a las empresas que comienzan a operar en las zonas de procesamiento de exportaciones	Aumentan los ingresos que obtiene el gobierno del impuesto general sobre las ventas Aumentan los ingresos tributarios totales	Aumentan los ingresos fiscales totales como porcentaje del PIB Parámetro de referencia básico (2005: 23,5%) Meta: (2007: 26%)

Annex 2

	Áreas de actividad		Medidas propuestas		Indicadores de impacto	
	Problemas	**Causa**	**Objetivos**	**Medidas**	**Provisionales**	**Finales**
Liquidación de la DFC	La situación financiera de la DFC es preocupante e insostenible	Mala administración, pasivo fiscal contingente y alto nivel de préstamos no redituables en la cartera	Comenzar la liquidación ordenada de los activos de la DFC, poner término a su objetivo primario de proporcionar financiamiento, limitar el ámbito de sus funciones, proceder a su cierre	El parlamento ha aprobado, y ha entrado en vigor, una enmienda a la ley sobre la DFC en virtud de la cual: (i) las funciones de ésta quedan reducidas a la capacidad operativa mínima necesaria para desempeñar sus funciones en relación con los documentos de la NAS y (ii) la DFC queda inhabilitada para originar préstamos nuevos, llevar a cabo proyectos de inversión directa, asumir un mayor endeudamiento o desempeñar cualquier otra función que no guarde relación con las mencionadas en el apartado (i)		Poner término a la necesidad de que el gobierno preste apoyo presupuestario a la DFC La DFC suspende nuevas operaciones de concesión de préstamos. Desde diciembre de 2006: Nuevos préstamos = 0 La DFC suspende todas las nuevas operaciones de contratación de empréstitos Desde diciembre de 2006: Nuevos empréstitos = 0
			Determinar las funciones de la administración superior	El gobierno ha contratado una auditoría forense para la DFC	El gobierno exige que se tomen todas las medidas administrativas y judiciales derivadas de la auditoría forense	

Annex 3

BANCO INTERAMERICANO DE DESARROLLO

MEMORANDO

Clasificación de Archivo:

RE2/FI2/BL-L1001;1817/OC/BL
FECHA: 14 de diciembre de 2006

A: Sr. Marcelo Antinori, Jefe
División de Finanzas e Infraestructura Básica 2

DE: Olver Bernal
Jefe de Equipo de Proyecto, RE2/FI2

ASUNTO: BELICE. Programa de Reforma Macroeconómica y del Sector Financiero Público (BL-L1001; 1817/OC-BL). Elegibilidad para el desembolso del primer tramo.

De acuerdo con lo establecido en las políticas operativas OA-418 y OA-423.II.C del Banco, el presente memorando se refiere al estado de cumplimiento de las cláusulas contractuales para desembolsar el primer tramo (US$10 millones) del préstamo de la referencia, cuyo contrato de préstamo entró en vigencia el 12 de diciembre de 2006. Para estos efectos y de conformidad con los requerimientos establecidos en el contrato de préstamo, se ha analizado toda la documentación presentada al Banco por el Ministerio de Desarrollo Nacional en fecha 9, 22 y 24 de noviembre de 2006 y complementada posteriormente en fecha 4 de diciembre de 2006 como evidencia del cumplimiento por parte del Prestatario. Fruto de este análisis, el equipo de proyecto considera que el Prestatario ha cumplido satisfactoriamente las condiciones previas para la elegibilidad de desembolso del primer tramo del financiamiento, tal como se detalla a continuación:

1. **Condiciones especiales previas a todos los desembolsos de los recursos del Financiamiento (Cláusula 3.03 de las Estipulaciones Especiales del Contrato de Préstamo).**

   (a) ***Mantenga un entorno macroeconómico conducente al logro de los objetivos del Programa:*** Cumplida. El Informe de Evaluación Macroeconómica Independiente del Banco anexo a la Propuesta de Préstamo recientemente aprobada por el Directorio del Banco, consigna que el Gobierno de Belice mantiene un entorno macroeconómico consistente y que es adecuado al logro de los objetivos del Programa. Actualmente, el país no tiene un acuerdo con el Fondo Monetario Internacional y sólo está sujeto a las consultas del Artículo IV, la última de las cuales fue completada el 6 de octubre de 2006. El equipo de proyecto ha revisado el informe del personal (staff report) del FMI y también ha mantenido un permanente diálogo sobre la situación económica de Belice, cuyos resultados se reflejan en este Programa de reforma macroeconómica respaldado por el Banco.

   Debido al ajuste introducido por el Gobierno de Belice en 2006, la situación macroeconómica a corto plazo ha mejorado considerablemente y los resultados que se esperan son alentadores. Para 2006 se prevé un crecimiento del PIB de

aproximadamente 5.3%, un superávit fiscal primario de 3.5% del PIB, inflación cercana al 4% debido a los precios de la energía, un nivel mínimo de reservas internacionales netas de US$48 millones. Con base en la revisión del reciente desempeño económico y sus perspectivas, así como también las medidas fiscales y financieras que han sido adoptadas, el equipo de proyecto considera que el entorno macroeconómico del país es consistente con las metas del programa.

(b) ***Cumpla con las condiciones establecidas en estas Estipulaciones Especiales para el tramo correspondiente:*** Cumplida. El análisis del cumplimiento de las acciones de políticas especificadas para el Primer Tramo, se detalla en el numeral 2 de este Memorando de Elegibilidad.

(c) ***Mantenga abierta la(s) cuenta(s) especial(es) a que se refiere el Artículo 4.01(c) de las Normas Generales, en el cual el Banco depositará los recursos del Financiamiento:*** Cumplida. El Prestatario presentó al Banco la documentación comprobatoria de la apertura de la cuenta especial en la que se depositarán los recursos del financiamiento. El cumplimiento de dicha cláusula fue verificado y comprobado por Memorando COF/CBL/734/2006 del 14 de diciembre de 2006.

2. Cumplimiento de las condiciones especiales previas a la iniciación del desembolso del primer tramo del financiamiento (Cláusula 3.04 de las Estipulaciones Especiales del Contrato de Préstamo).

La verificación del cumplimiento de la mayoría de estas cláusulas fue realizada durante la Negociación del Contrato de Préstamo, efectuada los días 6 y 7 de noviembre de 2006 y que incluyó la documentación presentada por el Ministerio de Desarrollo Nacional con fecha 9, 22 y 24 de noviembre de 2006. Posteriormente y tal como se refirió anteriormente, el Banco recibió la información complementaria definitiva sobre el cumplimiento de las condiciones especiales previas a la iniciación de desembolso del primer tramo del financiamiento.

(I) ***Gestión de los ingresos petroleros. Evidencia de la aprobación por la Asamblea Nacional y la vigencia de la nueva Ley de impuestos a la actividad petrolera, que asegure el manejo transparente de los ingresos de los hidrocarburos a través el presupuesto:*** Cumplida. Por nota del Ministerio de Desarrollo Nacional IA/IB/1/06 (24) de fecha 24 de noviembre de 2006, las autoridades beliceñas presentaron al Banco copia de la Gaceta Oficial No.10 del 23 de noviembre de 2006 donde se publica la enmienda a la Ley de impuesto a la renta y a las utilidades de las empresas (Income and Business Tax Amendment Act 2006) aprobada por la Asamblea Nacional. Esa Ley provee verificación de la tasa del impuesto a la renta que será aplicada a la industria petrolera y cómo serán manejados esos recursos. El equipo de proyecto considera que la condición ha sido cumplida.

(II) ***Sostenibilidad de la deuda pública. Evidencia de que el prestatario hizo una presentación formal a sus acreedores externos comerciales de la propuesta de reestructuración de la deuda:*** Cumplida. La Comunicación del Ministerio de Desarrollo Nacional IA/IB/1/06(20) de fecha 9 de noviembre de 2006, las autoridades presentaron al Banco copia del Informe titulado "Revised Medium Term Projections and Indicative Debt Structuring Scenarios". Este documento constituye la evidencia de la presentación formal de la propuesta de reestructuración de la

deuda externa comercial del Gobierno a sus acreedores externos. El equipo de proyecto considera que la condición ha sido cumplida.

(III) Liquidación del DFC ***(a) Evidencia de la enmienda a la ley del Development Finance Corporation (DFC) para: (i) reducir su capacidad operacional al mínimo requerido para desempeñar las funciones del manejo de los documentos del North American Securitization (NAS) y su proceso de liquidación; y (ii) extinguir su autoridad para originar nuevos préstamos, llevar a cabo proyectos directos de inversión, incurrir en endeudamiento adicional o cualesquier otra función no relacionada con aquellas referidas en (i):*** Cumplida. La Comunicación del Ministerio de Desarrollo Nacional IA/IB/1/06 (24) de fecha 24 de noviembre de 2006, adjuntó copia del DFC (Amendment) Act, 2006 aprobado por la Asamblea Nacional el 17 de noviembre, por la cual se limitan los poderes y funciones de la entidad financiera según lo descrito en (i) y (ii). Se adjuntó copia de la Gaceta Oficial No.10 del 23 de noviembre, en la cual se indica que esta resolución es efectiva a partir del 1 de diciembre. El equipo de proyecto considera que la condición ha sido cumplida.

(b) Evidencia de que el prestatario ha seleccionado la firma de auditoria que hará la "auditoria forense" del DFC y que ha informado al National Trade Union Congress of Belize de esta decisión: Cumplida. El 15 de septiembre de 2006, el Ministerio de Finanzas informó que de las tres firmas de auditoria que presentaron propuestas para realizar esta tarea fue seleccionada la firma del Sr. Mark C. Hulse CPA. Posteriormente, el 4 de diciembre, el Gobierno informó al Banco que había adjudicado el contrato respectivo al Sr. Hulse. El equipo de proyecto considera que la condición ha sido cumplida.

(IV) *Reforma Fiscal* ***(a) Evidencia de la aprobación por la Asamblea Nacional y la vigencia de la Ley del Impuesto General a las Ventas (General Sales Tax o GST):*** Cumplida. La Comunicación del Ministerio de Desarrollo Nacional IA/IB/1/06 (20) de fecha 9 de noviembre de 2006, incluyó copia de la Gaceta Oficial del 7 de enero de 2006, en la cual se aprueba el GST e indica que entrará en efecto a partir del 1 de julio de 2006. El equipo de proyecto considera que la condición ha sido cumplida.

(b) Evidencia de la implantación de las siguientes recomendaciones del Public Expenditure Review (PER) y del estudio fiscal: (a) incremento en las tasas del impuesto general sobre las utilidades desde 1.25% a 1.75%; (b) impuesto sobre las ventas de electricidad de uso domiciliario desde 0% a 10% para un umbral mensual de BZ$150; (c) impuesto sobre las utilidades aplicable a todas las Zonas Francas Comerciales a una tasa del 2% después de una exoneración temporal inicial de 10 años; (d) impuestos sobre las utilidades aplicable a todas las Zonas de Procesamiento para Exportación a una tasa del 2% después de una exoneración temporal inicial de 20 años; (e) incremento en el superavit primario desde 2% en 2005 al 3.2% en 2006; y (f) reducción del déficit fiscal desde 5.5% en 2005 hasta 3.3% en 2006. Cumplida. La Comunicación del Ministerio de Desarrollo Nacional IA/IB/1/06 (20) del 9 de noviembre de 2006 incluye: 1) copia de la enmienda de 2005 a la Ley del impuesto a la renta y a las utilidades de las empresas (Income and Business Tax Amendment Act 2005) publicada en la Gaceta Oficial del 29 de enero de 2005 como evidencia para verificar el cumplimiento del aumento del impuesto a las utilidades desde 1.25% a 1.75%; 2) el impuesto a las ventas sobre las ventas de electricidad de uso domiciliario está incluido en la Ley del Impuesto a las Ventas de

2006; 3) copia de la Free Zones Act 2005 publicada en la Gaceta Oficial del 25 de junio de 2005 para verificar el cumplimiento de la aplicación del impuesto del 2% sobre las utilidades después de una exoneración temporal inicial de 10 años; 4) copia del Export Processing Zone (Amendment) Act 2004 publicada en la Gaceta Oficial del 29 de enero de 2004 para verificar el cumplimiento de la aplicación del impuesto del 2% sobre las utilidades después de una exoneración temporal inicial de 20 años; 5) y 6) El Informe del Fondo Monetario Internacional (IMF Belize's Article IV Consultation) del 6 de octubre 2006 provee la confirmación independiente del desempeño fiscal del Gobierno para el año 2005 y el resultado esperado para el año calendario 2006 (El Cuadro 1, pág. 26, muestra el superavit primario y el déficit fiscal global que fueron acordados en la matriz de políticas. El equipo de proyecto considera que la condición ha sido cumplida.

3. Condiciones previas al primer desembolso (Artículo 4.01 de las Normas Generales del Contrato de Préstamo).

Previa consulta al Departamento Legal en los aspectos correspondientes, la Representación del Banco en Belice, a través de su Memorando COF/CBL/734/2006, de fecha 14 de diciembre de 2006, certificó el cumplimiento de las condiciones establecidas en las Normas Generales del Contrato de Préstamo, las cuales se refieren a: (a) informe jurídico fundado sobre las disposiciones constitucionales, legales y reglamentarias que comprueben que las obligaciones del Prestatario y las del Garante en el Contrato de Garantía si los hubiere, son validas y exigibles. El Departamento Legal del Banco mediante comunicación electrónica del 13 de diciembre de 2006 otorgó su conformidad con el informe jurídico presentado por el Prestatario; (b) la designación de uno o más funcionarios que puedan representar el Prestatario por sí o por medio de su organismo ejecutor con ejemplares auténticos de las firmas de dichos representantes; (c) el suministro de la información sobre la cuenta bancaria especial en la que el Banco depositará los desembolsos del financiamiento; (d) la presentación de una solicitud de desembolso en los términos que se indican en el artículo 4.03 de las Normas Generales del Contrato de Préstamo; y (e) la presentación por escrito de una carta confirmando o solicitando el cambio de la tasa de interés escogida durante las negociaciones del préstamo.

Toda la información y documentación que fue entregada por el país para sustentar el cumplimiento de las cláusulas contractuales referidas al desembolso del Primer Tramo del financiamiento, se encuentra en la División de Finanzas e Infraestructura Básica 2 y será posteriormente enviada al archivo del Departamento Regional de Operaciones 2.

Conclusión.

El equipo de proyecto considera que todas las condiciones previas al desembolso del primer tramo del préstamo 1817/OC-BL, establecidas en las 3.03 y 3.04, han sido cumplidas por el Gobierno de Belice. Por lo tanto, de conformidad con la OA-423.II.C, le corresponde al Jefe de División, aprobar el cumplimiento de las condiciones de política para el desembolso del primer tramo del financiamiento del préstamo indicado.

Aprobado: ______________________ Fecha: 15/12/2006
Marcelo Antinori, RE2/FI2/CHF

c.c.: Sr. Máximo Jeria, RE2/MGR
Sr. Lionel Nicol, RE2/DEP
Sra. María Eugenia Nepote-Cit, LEG/OPR
Sr. Rodrigo Mayén Girón, Representante COF/CBL
Sr. Fernando Quevedo, RE2/OD3
Sr. Fernando Rossel, FIN/LMB
Sr. Germán Paraud, FIN/CMS

Inter-American Development Bank

Short Procedure

On or after: 21 November 2007

PR-3116-2
14 November 2007
Original: English

To: The Board of Executive Directors

From: The Secretary

Subject: Belize. Loan 1817/OC-BL for the macroeconomic and public financial sector reform, approved pursuant to Resolution DE-153/06. Report on fulfillment of conditions precedent to the second and final tranche release and waiver of contractual clause

Inquiries to: Mr. Olver Bernal (extension 2547) or Mr. Jose Justiniano (extension 3433)

Remarks: The report distributed herewith, indicates the nature of the waiver requested in regard to contractual clause 3.05(IV)(b)(i) not fulfilled, and recommends that the second tranche of the loan be released for disbursement.

Executive Directors are requested to inform the Secretary, in writing, not later than **21 November 2007**, if they wish to interrupt this procedure. If no such communication is received by that date, the resolution will be considered adopted by the Board of Executive Directors, and a record to that effect will be made in the minutes of a forthcoming meeting.

Upon expiration of the circulation period for the present document and acting in accordance with the Regulations of the Board of Executive Directors Part III, Section 2(j)(xiv), the Administration will proceed to release the second tranche of loan 1817/OC-BL on **29 November 2007.**

References: GN-1838-1(7/94), DR-398-5(5/03), PR-3116(11/06), CS-3745(11/07)

Other distribution: Representative in Belize

BELIZE
"MACROECONOMIC AND PUBLIC FINANCIAL SECTOR REFORM" PROGRAM (LOAN 1817/OC-BL)

REPORT ON THE COMPLIANCE WITH THE CONDITIONS FOR DISBURSEMENT OF THE FINAL AND SECOND TRANCHE

October 18, 2007

Borrower	Belize
Approval Date	December 6, 2006
Date of the Contract	December 15, 2006
Effectiveness Date	December 15, 2006
Total Amount of Loan	US$ 25 million (ordinary capital)
Amount of first tranche/ Disbursed	US$10 million / December 18, 2006
Amount of final and second tranche	US$15 million

I. INTRODUCTION

1.1 On December 6, 2006 the Board of Executive Directors of the Inter-American Development Bank approved operation 1817/OC-BL to finance the Macroeconomic and Public Financial Sector Reform Program with up toUS$25 million. The borrower is Belize and the contract for the loan was signed on December 15, 2006 in Washington, D.C. The objective of this operation is to support the Government of Belize in implementing a reform agenda aimed at restoring macroeconomic and financial stability as well as improving investor climate confidence. The operation has been implemented as a Policy-Based Loan (PBL), which is intended to support the management of oil revenue, public debt restructuring, fiscal reform agenda and the liquidation process of the DFC. To achieve its objective the operation has established -in addition to the maintenance of a stable macroeconomic framework- specific policy and reform conditions, against which fast-disbursing resources for fiscal and balance of payment support are provided.

1.2 The Bank disbursed the first tranche of US$10 million on December 18, 2006. The final and second tranche conditions outlined in Section 3.05 of the Loan Contract focus on reforms in the fiscal and external sectors, as well as on the orderly liquidation of the Development Finance Corporation.

1.3 As described below, the Borrower has complied with the policy conditions mentioned in Section 3.05 for the second and final tranche related to the management of oil resources, conclusion of the debt exchange negotiations,

modernization of customs administration and additional fiscal measures, and continued liquidation process of the Development Finance Corporation. A mission to Belize took place from July 4–6, 2007, to review compliance with the conditions for the final disbursement. This report highlights preliminary findings from the review and on-going Bank support in these sectors.

II. Conditions prior to the disbursement of the final and second tranche

2.1 ***Section 3.03.*** The conditions established in Section 3.03 as well as in Article 4.01 and 4.03 of the General Conditions of the present contract. ***Complied***

2.2 The Country Office in Belize, in accordance with the authority granted to it by OA 423-II (A, B & E), has declared that the Borrower is in compliance with the conditions established in Articles 4.01 and 4.03 of the General Conditions as stated in a memorandum CID/CBL/496/2007 dated October 17, 2007 and signed by the Representative of the Country Office. Therefore, in the opinion of the Project Team, the authorities are in compliance with this condition.

2.3 ***Section 3.03(a)*** Submission of evidence, by the Borrower, that its macroeconomic environment allows the achievement of the objectives of the Program and is consistent with the Policy Letter mentioned in Section 4.01 of these Special Conditions. ***Complied***

2.4 The Government of Belize has maintained a policy framework consistent with the goals of the Program. The country currently does not have an IMF lending program and is subject to annual Article IV consultations, the latest of which was completed in November 2006. The next Article IV consultation will be in November 2007. The IDB has reviewed the IMF Article IV report and has had an ongoing dialogue with the IMF team on the current economic situation in Belize, the results of which are reflected in the following macroeconomic review and in the attached Annex (Independent Macroeconomic Assessment [IMA]). The IMA concludes that the macroeconomic situation is stronger than at the time of the last IMA and when the PBL was approved. However, the analysis also recognizes that Belize has significant macroeconomic vulnerabilities and risks that will require continued careful management.

2.5 The economy appears to be performing well in terms of traditional measures. GDP has been stable, with real growth of 5.6% in 2006.

2.6 Tax measures and expenditure cuts have led to a sharp improvement in the central government's primary balance. The primary surplus rose to 4 percent of GDP in 2006 and 5.8 percent in the first half of 2007. The overall fiscal deficit declined to 1.8 percent of GDP in 2006 and 0.9 percent in 2007.

2.7 One of the economic concerns faced by Belize is still the high level of government indebtedness. Although external debt restructuring has recently been

successful, public debt is currently at 91.2% of GDP with principal and interest payments running at 5.3% of GDP in 2007/08. Therefore tight monetary and fiscal policy will be called for to overcome this situation. Otherwise, the economy will remain vulnerable to adverse external shocks as a result and pose a threat to the foreign exchange peg of the national currency (Belize dollar) at 2:1 to the US dollar.

2.8 An important monetary objective of the Central Bank of Belize is to maintain the historic 2-1 BZ$ to the US$ exchange rate. To do this, the Central Bank has required commercial banks to maintain high levels of reserves. These are in the form of low-interest bearing investments. This reserve level has been increased twice, most recently in 2006. The impact of this monetary policy is to tighten credit and reduce liquidity in the banking system. As a result the banks have to increase their interest rates on available funds to earn a traditional margin. The real cost of capital is now in the 10% range (lending 14%, inflation at 4%). This rate is very expensive for any private sector project and is achieving the desired objective of restraining the growth of credit and the financing of imports, which, in turn, is reducing pressure on the exchange rate peg. This permits international debt servicing to continue.

2.9 For fiscal year 2007/08, a primary surplus of 3.3% of GDP and an overall deficit of 1.4% of GDP are projected. For fiscal year 2008/09, a primary surplus of 3.3% of GDP and overall surplus of 1.3% of GDP are projected. These projections indicate that the gaps are closed in the medium term.

2.10 There are risks that should be highlighted in the macroeconomic scenario. Medium-term growth prospects could be adversely affected by a slowdown in the global economy, especially through the impact on domestic and foreign investment, which have been a source of growth in recent years. In order to control the level of indebtedness further restraint in spending and higher tax revenues are needed.

2.11 Based on the review of the recent economic performance and the debt exchange as well as the fiscal measures that have been adopted, the Project Team considers that the country has a macroeconomic policy framework that is consistent with the goals of the Program. In parallel, the Administration is distributing to the Board an IMA by Bank staff of the current economic situation.

2.12 ***Section 3.03(b)*** Compliance, by the Borrower, with the conditions precedent to the disbursement of the respective tranche as set forth in these Special Conditions and continued compliance with the conditions precedent to disbursement of previous tranches as set forth in these Special Conditions. Regarding the General Conditions stipulated in the Article. 4.01 of the Special Conditions, there is no reported change in the status of fulfillment of such conditions. Related to the second and last disbursement, the Borrower has submitted the respective disbursement request**. Complied.**

2.13 ***Section 3.03 (c)*** Submissions of evidence by the Borrower, that it maintains open the special account in which the Bank will deposit the funds of the Financing as indicated in Article 4.01 (c) of the General Conditions**.** The Borrower has submitted the disbursement request for the second and last disbursement. The name of the bank and banking account number provided for the Borrower are the same previously provided in order to receive the first disbursement. Based in this evidence, CID/CBL declares this condition **Complied**.

2.14 ***Section 3.05 (I).*** **Management of Oil Resources.** Evidence that the Borrower has opened a special account at the Central Bank to manage the oil resources and has included them in the National Budget. ***Complied.***

2.15 This component is intended to support the adoption and implementation of an oil revenue tax reform, with the aim of ensuring more efficient and transparent fiscal management of the oil revenue. Given the recent oil discoveries and the impact they will have on fiscal revenue, it is crucial to secure a rational management of these resources.

2.16 After the Program was approved, the Government decided to go beyond this objective and to establish a Petroleum Revenue Management Fund. The petroleum fund is designed to ensure that the windfall income from petroleum revenues is saved rather than spent. The fund is being created on the advice of consultants from the Commonwealth Secretariat who have, since October 2006, drafted both a conceptual plan and a detailed design of how the fund will operate. The Petroleum Revenue Fund Management Bill was tabled in House of Representative on 25 May 2007. The Bill provides for the establishment, maintenance and operation of special Petroleum Revenue Management Fund. The Bill also provides for the opening of a special Petroleum Fund Permanent Restricted Account at the Central Bank of Belize.

2.17 An Investment Committee will administer the Fund. The investments of the Fund, including cash, shall only be in United States Dollars, Pounds Sterling, Euros or other currencies of comparable stability and convertibility. No investment of the Fund is to be, directly or indirectly, in: (a) Belize; (b) any entity doing a material part of its business in Belize; or (c) any entity controlled by a citizen or citizens of Belize or any person or persons resident in Belize, or any combination thereof, and whether or not, in any case, formally of informally, acting in concert. Notwithstanding the provisions of (a), (b) and (c), but only with the prior approval of the House of Representatives, up to 10% of the Fund may be invested in Government of Belize international debt securities investments.

2.18 Currently and until the Act comes into force, both the royalties and the income tax are being paid into the Consolidated Fund of the Government at the Central Bank of Belize. No other receipts from the Petroleum Industry are being set aside or deposited into any other special account or Fund. To date for the current fiscal year (April to August), the Government has received about BZ$13.6 million in

income taxes from Belize Natural Energy Limited and a further $4.2 million in royalties. Of the BZ$13.6 million, some $10.6 million was in respect of the 2006 tax year but was paid in the current fiscal year. The Government anticipates that the income taxes receipts will be in the region of BZ$20 million for the year, but this would include the $10.6 million paid in respect of the previous year. Also, it anticipates that the royalties will be in the region of BZ$8.0 million for the whole year. The Government has already included BZ$20 million in the budget. (Budget presentation for Fiscal Year 2007/08 by Prime Minister- March 2, 2007).

2.19 The Petroleum Revenue Management Fund Bill was approved by both the House of Representative (on August 31, 2007) and the Senate (on September 7, 2007), signed into law by the Governor General (Act No.16) and published in the Government Gazette (on October 9, 2007). Although this was not a condition for the Program, the Act looks adequate because it places strong emphasis on oversight, transparency and accountability. Therefore, in the Project Team's view, this condition has been fully accomplished with the approval of the bill, its subsequent publication in the Gazette as well as the opening of a special account at the Central Bank.

2.20 ***Section 3.05 (II).*** **Public Debt Sustainability.** Evidence that the Borrower has reached an agreement for its public debt restructuring with most if not all its external commercial creditors. ***Complied.***

2.21 The primary objective of this component was to improve debt management and seek possible debt service relief from external creditors to bring down public debt to sustainable levels.

2.22 The Government of Belize has successfully restructured its commercial debt. Debt exchange was completed on 20 February 2007 with a participation rate of 98.1% of all eligible commercial creditors. Belize's creditors agreed to exchange their existing instruments for a new US Dollar bond with the following terms and conditions: (i) a duration of 22 years with a final maturity in February 2029; (ii) principal repayments in equal semi-annual instalments beginning in August 2019; (iii) a step-up interest rate structure with 4.25% payable in years 1-3; 6.00% payable in years 4-5; and 8.50% payable from year 6 through to maturity; and (iv) Government may redeem the bonds at face value at any point after the end of the grace period. Late tenders have increased the participation rate to 98.6% at end of May 2007.

2.23 The restructuring has resulted in an improved outlook for the future. Belize's debt service profile has been transformed from one that was unsustainable to one that is more sustainable. There are no more spikes reflecting imminent bullet payments or put options. The new debt service profile provides Belize with considerable net cash flow relief between 2007 and 2015 amounting to US$481.5 million. A Report on Belize's Debt Restructuring prepared by Houlihan Lokey has been attached as evidence.

2.24 Based on the evidence presented and the actions taken by the Government, in the opinion of the Project Team, the authorities are in compliance with this condition.

2.25 ***Section 3.05 (III)*** **Liquidation of the Development Finance Corporation(DFC)** Evidence that: (a) DFC is carrying out its liquidation process and therefore has extinguished its new lending, new borrowing and new direct investment project activities not related with the North American Securitization transaction (NAS documents); and (b) the Borrower has received and has made public the report from the auditing firm regarding the forensic audit performed on the DFC. ***Complied.***

2.26 The objective of this component is to ensure that the liquidation of the DFC proceeds in an orderly way and that the DFC does not once again becomes a direct burden on the Central Government. In November 2006, the DFC Act was amended to limit the powers of the organization to the administration of the North American Securitization (NAS) transaction, and to perform all other functions required under pre-existing contractual or other arrangements. The Corporation cannot borrow any new money or provide any new loans. Consistent with these revised objectives, management has examined the organizational structure to make it more in line with the DFC's new mandate. The staff reorganization of the DFC will continue until December 2007. At the end of the process the staff contingent will have been reduced from fifty-six employees in March 2006 to forty-five persons. DFC is currently operating on the concept of 47 employees. The structure has two roving persons who will replace outlet cashiers or managers when these persons proceed on vacation or sick leave. The cashier is not a position that can be filled by anyone other than a trained cashier. The roving cashier works in the accounts department in Belmopan and will be roving 4 months solely on routine 'vacation leave" replacement. Offices in Corozal, Punta Gorda and Dangriga have already been closed/sold and loans are being administered from Orange Walk and Belmopan respectively. The number of branches has been reduced from 4 at end of December 2006 to 3 at the end of June 2007.

2.27 The loan portfolio administered by the DFC had continued to decline as of the end of June 2007 in both number and value. A marked improvement was also achieved in the arrears and non-performing positions. The collections target was also realized as well. An overview shows that DFC has attained positive results for the first half of the year. The portfolio stood at 3,760 loans for a value of BZ$156.8 million at the end of June 2007. The number and value of loans shown a declining trend over the past six months. At the end of December 2006, the portfolio was recorded at 4,147 loans for a value of BZ$188.8 million. The portfolio has declined by BZ$32 million over this period, mainly as a result of accelerated loan collections and loan write-offs consistent with DFC's policy. The portfolio's non-performance position at the end of June stood at 23.2% in contrast to 32.2% at the end of December 2006. Also, the principal arrears position at the end of June 2007 is recorded at 6.5% or BZ$10 million. This is the best recorded position over the past two years and is within reach of DFC's goal of 5% principal

arrears. Total liabilities have also decreased from BZ$187 million to BZ$167 million. Finally, the budget cost is BZ$4 million, below the target of BZ$4.5 million.

2.28 Furthermore, the Chairman of the DFC has submitted to the Bank a report on the Belize Mortgage Company Ltd. (BMC) related to the operations under the North American Securitization Transaction (NAS). This report states that the NAS pool performed satisfactorily for the first half of 2007. BMC operations were able to significantly reduce the servicing fee payable to DFC. Loan collections were sufficient to maintain all the required reserve levels and no debt service advances were required of the DFC as Servicer. The portfolio quality was also maintained within the required parameters through active loan monitoring and loan substitution. In summary, the portfolio is performing and maintained at the required level; the liquidity requirements are met; and the bonds payable are being paid on due dates.

2.29 The reductions show that the orderly liquidation is occurring at a fast pace.

Development Finance Corporation (DFC) – Performance Indicators						
	Dec-04	**Jun-05**	**Dec-05**	**Jun-06**	**Dec-06 Audited**	**Jun-07**
Number of Employees	103	76	72	69	60	47
Number of Branches	8	5	6	5	4	3
Number of Loans	9,366	8,747	7,272	5,610	4,147	3,760
Non Performance Ratio	36.37%	47.18%	48.05%	40.28%	32.2%	23.2%
Loan Portfolio	331,407		302,936	264,690	188,816	156,847
Provision	-28,001		-66,310	-50,850	-21,263	-13,220
Total Liabilities	583,675		274,539	246,539	186,976	167,032
Budget Cost			7.2 million	6.2 million	4.0 million	4.017million

2.30 A forensic accounting investigation of the Development Finance Corporation was prepared by Mark Hulse and completed in February 2007. The Report on Forensic Auditors was submitted to the Government, the Commission of Inquiry and the unions. The Report was placed on the Government's web page in July 2007.

2.31 Based on the evidences presented to the Bank and the actions taken, the Government of Belize is moving ahead with the orderly liquidation of the DFC. Therefore, in the opinion of the Project Team, the authorities are in compliance with this condition.

2.32 ***Section 3.05 (IV)*. <u>Fiscal Reform Agenda</u>.** Evidence that the Borrower: (a) has prepared a master plan and schedule for reforming the Customs Administration and it has been approved by the Government; and (b) the Borrower has implemented the following recommendations from the public expenditure review (PER) and fiscal study: (i) modernization of the payroll system; (ii) strengthening of the budget analysis unit; (iii) reduction in domestically financed capital expenditures; and (iv) an unique taxpayer identification number system. ***This condition has been partially fulfilled.***

2.33 (a) *Customs Administration*. On 15 July 2007 the Bank received a Report on the status of the reform of the Customs Administration. Cabinet approved a project to modernize Customs administration to maximize efficiency in the Customs clearance process, which would allow for increased revenue collection and more timely and accurate trade statistics. This project will implement the newest version of ASYCUDA system and will transform the way the Customs Department operates internally and interacts with importers and exporters. It will speed up the processing of Customs Declarations, lower the cost of business to the private sector and reduce the scope for corrupt practices. The project was prepared with the assistance of UNCTAD and the Ministry of Finance. Funding for the implementation of the project was approved by the Caribbean Development Bank in May 2007. Also, a general time frame of activities for implementation has been approved by the Government. Therefore, in the opinion of the Project Team, the authorities are in compliance with the condition established in Section 3.05 (IV) (a).

2.34 (b) (i) M*odernization of the payroll system.* The objective of this condition was that payments to public staff should only be made to persons in the personnel data base to limit hiring, as well as to avoid duplication of positions. In order to meet this objective, one of the recommendations of the public expenditure review (PER) was the implementation of a detailed plan to link the payroll to the computer-based HRMIS. This task has been delayed for the following reasons: (i) availability of the software development consultants; (ii) availability of local funding; and (iii) turnover of local staff. The Ministry of Finance has recently reviewed the status of the project with the Implementation Team and has allocated more financial resources to meet the consultancy fees and other project costs. It is expected that the project should be completed by the end of March 2008. Nevertheless, the Ministry of Finance has taken certain actions to strengthen oversight and controls of the Government of Belize's payroll system. This has been accomplished through procedural improvements. Among other changes, cross checking controls have been put in place, including a process whereby the monthly payroll must now be certified by at least two officers at the Ministry level and then confirmed by the Treasury Department staff. Based on the foregoing, although the Government of Belize has not complied in full with the provisions of clause 3.05(IV)(b)(i) of the Special Conditions of loan contract 1817/OC-BL, this does not affect the achievement of the overall purpose of the program, nor does it constitute a substantial change thereto. As indicated above, the Government of Belize has taken the necessary measures and actions to ensure that the condition is met. Accordingly, Management proposes that the Board of Executive Directors of the Bank grant a waiver in respect of the condition set in clause 3.05(IV)(b)(i) of the Special Conditions of loan contract 1817/OC-BL.

2.35 (b) (ii) *Strengthening of the budget analysis unit.* The position of Budget Director has been filled by a qualified career officer from the Ministry of Finance. An additional Economist position has been filled to complement another Economist position in the Budget Unit. Additionally, two technical staff provides support to the unit. The evidence presented and actions taken show that the Government has adequately funded and staffed this unit, and is engaged in training to strengthen its

institutional capacity. Therefore, in the opinion of the Project Team, the authorities are in compliance with the condition set in Section 3.05 (IV) (b) (ii).

2.36 (b) (iii) *Reduction in domestically financed capital expenditures:* The Government of Belize has initiated a broad reform process in the area of capital expenditures II. According to the latest fiscal data, capital expenditures II for 2006/07 amounted $80.5 million. For FY 2007/08 the budget for capital expenditures II has been reduced to $49.9 million. Therefore, in the opinion of the Project Team, the authorities are in compliance with the condition established in Section 3.05 (IV) (b) (iii).

2.37 (b) (iv) *Tax identification number (TIN).* Progress has been made in the continued process of the creation of a unique taxpayer identification number system. This was a major area of concern at the beginning of the General Sales Tax (GST) implementation. In a Memorandum of Understanding between Customs and GST it was agreed that the Customs and Excise Department (CED) would implement the TIN on 1 July 2006. At that time CED was using an Importer/ Exporter code of five digits preceded by the letter "I". ASYCUDA's limitations meant that they could only replace this code with the new TIN. Since it was already three months into the new fiscal year this would mean that Customs would lose access to data acquired since April 1 of 2006. It would also affect declarations relating to the replaced importer/exporter codes. It was proposed to combine the old code and the new TIN in order to allow CED to reference data while implementing the TIN. It was also agreed that they would retire the old importer/exporter codes after a period of testing. After resolving several related issues CED has now retired those codes and the TIN is now in full use. Therefore, in the opinion of the Project Team, the authorities are in compliance with the condition established in Section 3.05 (IV) (b) (iv).

III. RECOMMENDATION

3.1 Having reviewed the documentation furnished by the borrower and the project team's analysis of same, Management feels that the Republic of Belize has wholly fulfilled all conditions precedent to release of the second tranche of the loan set out in clauses 3.03 and 3.05 of the Special Conditions of loan contract 1817/OC-BL, with the exception of the condition in clause 3.05(IV)(b)(i) thereof, which has not been fulfilled.

3.2 Accordingly, Management recommends that, in accordance with the provisions of section V.B. of the Operations Administration Manual (OA-423) "Table of Authority for Policy-Based Loans," the Bank's Board of Executive Directors approve a waiver in respect of fulfillment of the condition in clause 3.05(IV)(b)(i) of the Special Conditions of loan contract 1817/OC-BL. Once that waiver is approved and the 10-day notification period set forth in Part III, Section 2, subparagraph (j)(xiv) of document DR-398-5 "Regulations of the Board of Executive Directors of the Inter-American Development Bank", the

Administration will proceed with the disbursement of the second and final tranche of the above said loan for up to US$ 15,000,000.00.

Annex 4

MACROECONOMIC AND PUBLIC FINANCIAL SECTOR REFORM

MINUTES OF THE EXIT WORKSHOP

Loan 1817/OC-BL

April 22, 2009

1. Participants

The participative project assessment workshop was held through video conference on the 22 of April 2009. Participants at the exit workshop were the following: Joseph Waight, Financial Secretary, Ministry of Finance; Carla Barnett, Senior Advisor, Ministry of Finance; Yvette Alvarez, Senior Advisor to Ministry of Finance; Harold Arzu (CID/CBL); Dougal Martin (CID/CNI); Laura Alonso (CID/CID); Francisco Demichelis (ICF/CMF); and Oliver Bernal (ICF/CMF). After reviewing the execution of the various components of the PBL, the group focused on the principal challenges faced by the program.

2. Project Assessment

In assessing the project, the group focused on achievement of its development objectives and the implementation of the five specific components. In broad terms, the program was extremely successful in assisting the Government of Belize in implementing a reform agenda aimed at restoring macroeconomic and financial stability, as well as improving investor confidence. In terms of the five components, observations, conclusions and recommendations were as follows:

- *Component 1: Macroeconomic Framework and Policy Letter.* The disbursement of the two tranches was conditional on maintenance of a sound macroeconomic framework as set out in a Policy Letter. The group considered this component was executed satisfactorily.

- *Component 2: Management of the Oil Revenues.* Conditions for this component included: (i) the approval by the Parliament and entry into effect of a new oil tax law that will ensure the transparent management of the oil revenue; and (ii) opening of a special account at the Central Bank to manage the oil resources and their inclusion in the national budget. All conditions were complied with. The Income and Business Tax (Amendment) Act 2006, approved by parliament and published in the Gazette on November 24, 2006, provided a special tax regime for companies engaged in petroleum operations. Petroleum revenue is being deposited directly into the Government's consolidated fund at the Central Bank of Belize and included in the annual budget.

- *Component 3: Public Debt Sustainability.* Conditions include: a) formal presentation to creditors of the Government's debt restructuring proposal; b) agreement reached for restructuring of the public debt with its external commercial creditors. Both conditions were met. The debt restructuring was highly successful, with a final participation of private creditors of 98.5%, and it averted a probable default and bought time for the government's macroeconomic adjustment program to reestablish fiscal and external sustainability.

- *Component 4 Liquidation of the Development Finance Corporation (DFC).* In compliance with the conditions for this component the DFC Act has been amended to: (i) pare down its functions to the minimum operational capacity required to perform only its functions under the North American Securitization documents; and (ii) extinguish its authority to provide new loans, carry out new direct investment projects, or incur additional indebtedness or any other function not related with those referred. Although this occurred prior to the last disbursement, in the month of March 2009 the Government approved a new DFC Act that provides the faculty to the DFC to engage in lending activities again.

- *Component 5: Fiscal Reform Agenda.* Conditions included: (i) Preparation, approval and entering into effect of a General Sales Tax (GST); (ii) Implementation of certain recommendations from the public expenditure review; and (iii) Preparation and approval of a master plan for reforming the customs administration. For this component the GST has been implemented; and three recommendations of the public expenditure and revenue systems reports have been put in place (raise in business tax rates, sales tax on electricity sales to households and business tax on commercial free zones and export processing zones).

3. **Lessons Learned:**

The IDB indicated that given past experience, reopening the DFC could be a major burden to fiscal accounts in the future unless a very well regulated and supervised DFC is established. The authorities indicated that the resuscitated DFC will be regulated by the Central Bank, abide by internationally accepted banking standards, and include a stronger governance structure.

The prompt execution of the program reflected high government commitment and the pressure of the government's financing needs.

4. **Conclusions from the Exit Workshop**

The conclusions from the Exit Workshop are the following:

- In broad terms, the program was highly successful in helping Belize navigate through a very difficult macroeconomic situation and in averting either a default on private external debt or a generalized macroeconomic crisis. In addition to the funding

provided by the program, the program played an important role in signaling to investors and the international community that the government's adjustment program had the backing of the IDB. While much progress was achieved in the specific components, the sustainability of the development objectives in the DFC component has been put in doubt by a reversal of the policy decision to liquidate and close the DFC. Time will tell whether the new structures and controls placed on the DFC prevent the institution becoming a fiscal burden, as the government expects, or whether the DFC will again become a fiscal burden on a fiscally-stretched government, as the Project Team fears.

At the moment of the last disbursement the participants considered the program to be satisfactory, however, in light of changes occurred a year after the finalizing of the execution, the team could assign a partial satisfactory evaluation.

Joseph Waight
Ministry of Finance
19 MAY 2009

Olver Bernal
IDB

Francisco Demichelis
IDB

Inter-American Development Bank Project Completion Report –2006 PCR Borrower Evaluation	
Project Name: Belize – Macroeconomic and Public Financial Sector Reform Program	
Executing Agency(ies): Ministry of Finance of the Government of Belize	
Borrower: Belize	
Date of Project Approval: 6 December 2006	Date of Contract Effectiveness: 12 December 2006
Date of Borrower Evaluation: 22 April 2009	Expected Date of Exit Workshop:

Borrower Project Performance Ratings

Probability on Achieving its Development Objective(s):

[ ] Highly Probable (HP) [P] Probable (P) [ ] Low Probability (LP) [ ] Improbable (I)

Project Implementation:

[ ] Highly Satisfactory (HS) [S] Satisfactory (S) [ ] Unsatisfactory (US) [ ] Very Unsatisfactory (VU)

Sustainability of Project Results:

[ ] Highly Probable (HP) [P] Probable(P) [ ] Low Probability (LP) [ ] Improbable (I)

Comments:

The Project has achieved early positive results particularly in the area of debt restructuring and fiscal consolidation. Sustainability will require a continuation of enhanced revenue management and strong expenditure controls together with continued governance reforms.

Borrower Performance During Project Preparation
Please rate your own performance during Project Preparation: [   ] Highly Satisfactory (HS)   [S   ] Satisfactory(S)   [   ] Unsatisfactory (US)   [   ] Very Unsatisfactory (VU) <u>Comments</u>: The Project was the first comprehensive macroeconomic policy reform program undertaken by the Borrower. It therefore required new and innovative approaches and orientations on the part of the Borrower. The relatively short time taken to complete the preparation of the project is a credit to the Borrower and the Bank.

Borrower Performance During Project Execution
Please rate your own performance during Project Execution: [HS] Highly Satisfactory (HS)   [   ] Satisfactory(S)   [   ] Unsatisfactory (US)   [   ] Very Unsatisfactory (VU) <u>Comments</u>: The conformity by the Borrower to the projected disbursement timetable supports the HS rating.

Bank Performance During Project Preparation
Please rate the Bank's performance during project preparation. Factors to be considered include the extent to which the Bank facilitated a participatory project design, proposed adequate technical solutions to the problems identified, and responded to the needs of the Borrower (timeliness, selection of instrument type). [HS] Highly Satisfactory (HS) [ ] Satisfactory(S) [ ] Unsatisfactory (US) [ ] Very Unsatisfactory (VU) Comments: The support of the Bank in the project preparation was crucial to the design of the Project and to ensuring that targets set were appropriate and achievable. Particularly the technical studies on the financial sector and the Development Finance Corporation.

Bank Performance During Project Supervision
Please rate the Bank's overall performance during project supervision. Factors to be considered include <u>technical assistance</u> (including informal and formal training) to Executing Agency, <u>timeliness</u> of Bank response and the Bank's <u>flexibility</u> to respond to emergency situations during project implementation. [ ] Highly Satisfactory (HS) [S] Satisfactory(S) [ ] Unsatisfactory (US) [ ] Very Unsatisfactory (VU) <u>Comments</u>: The project was well supervised and the IDB team assigned to the project had practical experience in the management and supervision of financial institutions in other member states.

Additional Suggestions for Improving Bank Performance
Additional comments/suggestions for improving Bank performance in the future.

Annex 6

BELIZE – MACROECONOMIC AND FINANCIAL SECTOR REFORM PROGRAM (BL-L1001)

OUTCOMES MATRIX

	Areas of activity		Proposed measures		Impact Indicators	
	Problems	**Cause**	**Objectives**	**Measures**	**Interim**	**Final**
Macroeconomic Framework	Macroeconomic stability is fragile.	Fiscal mismanagement and excessive country borrowing (internal and external)	Restore Belize's macroeconomic and financial stability and to improve investor climate confidence.	Adherence to a sound macroeconomic framework consistent with the objectives of the Program and the Policy Letter.	Improve fiscal and external position.	Overall and primary surplus/deficit improve as a % of GDP
Oil Revenue Management	Given the recent oil discoveries and the impact they will have on fiscal revenue, it is crucial to secure a rational management of these resources.	Indetermination of the management of oil revenue.	Create a fiscal framework for a more transparent management of the oil revenues.	New oil tax law, that will ensure the transparent management of the oil revenues through the national budget, has been approved by the Parliament.	Increase further government revenues from the oil sector.	Strengthen the fiscal position.
Public Debt Sustainability	The viability of the balance of payments is at risk due to the high level of public internal and external debt. Debt service places a heavy burden on public finances.	Excessive country borrowing (internal and external)	Improve public debt management and seek possible debt service relief from external creditors to bring down public debt to sustainable levels.	The Government of Belize has reached an agreement for public debt restructuring with external commercial creditors.	External debt service is reduced.	Total indebt ness of the country is reducing as a % of GDP External debt as % of GDP is reducing.

Annex 6

	Areas of activity		Proposed measures		Impact Indicators	
	Problems	**Cause**	**Objectives**	**Measures**	**Interim**	**Final**
Fiscal Reform	The fiscal position is unsustainable due to the high level of public debt and weak tax effort.	Fiscal mismanagement and excessive country borrowing (internal and external)	Strengthen tax and custom regime in order to improve efficiency and to implement the recommendations of the comprehensive review of public expenditure.	The General Sales Tax (GST) has been approved and put into effect. A master plan and schedule for reforming the Customs administration has been approved by the Parliament. The following recommendations from the public expenditure review (PER) and fiscal study funded by the Bank have been implemented: 1) Raise in business tax rates; 2) Sales tax on electricity sales to households; and 3) Business tax on new entrants to Export Zones.	Government revenue from The General Sales Tax (GST) is increasing. Total taxes revenue is increasing.	Total fiscal revenue is increasing Reduce the fiscal deficit

Annex 6

	Areas of activity		Proposed measures		Impact Indicators	
	Problems	**Cause**	**Objectives**	**Measures**	**Interim**	**Final**
Liquidation of the DFC	Financial position of the DFC is worrisome and unsustainable	Because of mismanagement, contingent fiscal liabilities and high level of non-performing loan portfolio.	Start the orderly liquidation of the assets of the DFC, eliminate its primary purpose of supply financing, and limit the scope of its functions proceeding to its closure.	An amendment to the DFC Act has been approved by the Parliament and has entry into effect by which: (i) DFC pare down its functions to the minimum operational capacity required to perform its function under the North American Securitization (NAS) documents; and (ii) extinguish its authority to originate new loans, carry out direct investment projects, incur additional indebtedness or any other function not related with those referred in paragraph (i).		Eliminate the needs for DFC budget support from the Government DFC suspends new lending operations. DFC suspends all new borrowing operations.
			Identify the responsibilities of the top management.	The Government has hired a forensic audit for the DFC.	The Government requires all the administrative and judicial actions derived from the forensic audit.	

POD - Quality and Risk Review (QRR)
Results and Procedure Report

A. QRR PROCESS

The PCR was distributed to the QRR on September, 2009. A QRR meeting was held at 11:00 a.m. on October 7, 2009. Comments received in writing as well as those discussed at the meeting have been documented in this Results and Procedure Report.

Invitees: Caroline Clarke, CID/CBL; Maria Eugenia Nepote-Cit, LEG/SGO; Laura Virginia Alonso, CID/CID; Dougal Martin, CID/CNI; Katharina Falkner-Olmedo, VPC/PDP; Carlos Herrera, FIN/FSV; Carola Alvarez, SPD/SDV; Cristian Santelices, SPD/SMO; Stephen Quick, OVE/OVE; Mercedes Mateo, ICF/ICF; Mario Sangines, ICF/ICF.

Team Members: Olver Bernal, ICF/CMF, Project Team Leader; Francisco Demichelis, ICF/CMF; and Annabella Gaggero, ICF/CMF.

Attendance: Kurt Focke (ICF/CMF), who presided the meeting; Caroline Clarke, CID/CBL; Dougal Martin, CID/CNI; Laura Virginia Alonso, CID/CID; Olver Bernal, ICF/CMF; Francisco Demichelis, ICF/CMF; and Annabella Gaggero, ICF/CMF.

B. UNRESOLVED ISSUES

There are no unresolved issues.

C. COMMENTS

Name/Dept.	Topic	Comments	Answers
Mario Sangines, ICF/ICF	Quality of the Report	This is a very well written, clear and informative PCR. Congratulations. Only a few minor suggestions:	
	III.a. Outcomes.	There is no classification of each outcome (HP,P,LP,I).	It was corrected for each activity establishing the classification.
	III.a. Outcomes, Outcome 5.	Please include a better explanation of the outcomes achieved, like with the other outcomes. What were the provisions of the new GST? Was the tax administration able to apply the new tax effectively? How much of the overall tax burden is attributable to the GST? Is it sustainable?	The text was modified accordingly
	V.a Critical Factors.	The new government reversed the position on the DFC with support of the CDB. This merits a bit more analysis, and should perhaps be reflected also in the assessment of borrower performance.	It was incorporated.

Name/Dept.	Topic	Comments	Answers
	VII. Lessons learned.	The lessons learned seem a bit perfunctory and do not really reflect the richness of the operation. I suggest you expand each into a short 3-4 sentence paragraph-bullet, reflecting a bit more deeply on the issues of political economy, importance of having an IMF program vs an IMA, constraints identified for implementing a new tax, good practices in dealing with private creditors in a restructuring program, and the possibility of reversal of key policy elements (DFC), among others.	Lessons learned were change reflecting the achievements of the operation focusing on the debt negotiation and the impact regarding the opportunistic moment of the intervention.
Eduardo Cavallo, RES/RES	Achievements	The Policy Completion Report (PCR) shows that PBL BL-L1001 was successful in achieving its objectives, namely, to assist the Government of Belize (GoB) in implementing a reform agenda aimed at restoring macroeconomic and financial stability.	OK
	IMA and other country reports	While this project in particular has been successfully completed, it is important from a development standpoint to ensure its continuity overtime. Therefore, it is important to ensure that future Independent Macroeconomic Assessments (IMAs) and other relevant country reports pay close attention to this issue.	OK
	DFC	Two areas are particularly relevant: debt sustainability and the monitoring of the working of new Development Financial Corporation (DFC), the main culprit of the problems in the past. With respect to the recent re-opening of the DFC, the Bank has a vested interest in monitoring closely the working of the new institution, as a successful completion of this program requires that the country avoids previous mistakes.	OK
	Bank's DSA	With respect to debt sustainability, it may be important to develop the capacity in-house to monitor the country's performance. For that purpose, it may be advisable to include in future IMA's our own debt sustainability analysis (DSA). The DSA template recently elaborated by RES together with the offices of the regional economic advisor's (REAs) might be helpful.	OK

Name/Dept.	Topic	Comments	Answers
		Another issue to consider is the evaluation of the appropriateness of the conditionality originally set. In particular, the program included some conditionality and output indicators set at the time of the origination of the Loan. Given the overreaching objective of the program, and with the benefit of hindsight, it might be useful to evaluate the appropriateness of the conditionality originally set and evaluate whether something should be done differently in the future.	OK
		Finally, for completeness, it would be useful to include in this report a Memo summarizing the successful completion of all the required conditionality that was the basis for the approval of the disbursement of the second trench (similar to the Memo dated 12/14/2006 for the approval of the disbursement of the first trench).	Will do and it is attached.
Dougal Martin, CID/CNI	Debt rescheduling	Agree with the Team it was a success. However, in some sense it is still too soon to tell. The story is not over with the debt. Interest rate is still low; when it steps up, people will be more critical on the impact of the country's debt position. Please include some text on this matter in the sustainability section.	More clarifications were made in the sustainability section regarding the debt position of the country.
	DFC	Since it was not completely liquidated, there is an increased risk of going back to the previous situation.	Included in V as critical factors.
	Management of oil revenues	The document is not clear in what oil law is it referring to. There was a law approved for the first disbursement, and there is also a Petroleum Revenue Management Fund, which was never implemented.	We clarify that we are talking about the law, which was one of the conditionality.
Caroline Clarke, CID/CBL	Lessons learned	Mention in the document: ✓ Resistance of government to liquidate the DFC. ✓ Interest of the country to pull forward in the redirection of the financial sector.	Included in III Results, a, 4.
Kurt Focke, ICF/CMF	Sustainability	We need instruments to maintain the dialog with the country. For future operations the Bank needs to ensure that it has adequate instruments to guarantee sustainability of reforms.	Included in VII Lessons Learned