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**Belize**

Global Credit Program for Safeguarding the Productive Sectors and Employment

**(BL-L1037)**

**credit regulations**

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# Introduction

* 1. This document presents the Credit Regulations (CR) of the Global Credit Program for Safeguarding the Productive Sectors and Employment (the program), between the Inter-American Development Bank (IDB, the Bank) and The Development Finance Corporation (the borrower and executing agency), for a total amount of US$15 million, corresponding to operation BL-L1037.
  2. In the event of any inconsistency or discrepancy between the terms of these Regulations and the Loan Agreement, the Loan Agreement shall prevail. These regulations may not be modified without the prior written consent of the Bank. The CR will remain in force as long as the Loan Agreement is in force.

# Definitions

* 1. **Micro, Small, and Medium Enterprises (MSME):** To determine the status of MSME, the program will take into account the value of the total annual sales, excluding the applicable Value Added and Internal taxes, and the total number of employees of the company; In accordance with the definition issued by BELTRAIDE in the Belize MSME Policy and Strategy Report of March 2012.
  2. **Women-owned or led companies**: It is understood that a company is owned or led by women if more than 50% of the property is owned by women, or those where at least 25% of the property is owned by women and at the least one decision-making position is led by a woman.
  3. **Intermediary Financial Institutions (IFI)**: First-tier banks and financial institutions that will provide sub-loans to registered business and companies with the resources of the program, according to the terms and conditions established in this CR.
  4. **Green investments**: Investments that contribute to mitigate and/or adapt to climate change. See the positive list of investments aligned with climate change in Annex 4.
  5. **Executing Agency (EA):** Development Finance Corporation (DFC).
  6. **Sub-borrowers (Beneficiaries)**: Eligible MSMEs that will access credit with the financing obtained from the program.
  7. **Sub-loan:** credit provided to sub-borrowers with the financing obtained from the program.
  8. **Sub-project:** projects carried out by sub-borrowers with credit provided with the financing obtained from the program.

# Program coordination and responsibilities

* 1. The EA will execute the program within the framework of its organizational, administrative, and financial structure.
  2. The EA commits, prior to the start of the disbursement of the program, to have the requirements to efficiently fulfill its responsibilities within the objective of the program, including the required personnel and resources, under the criteria of this CR.

# Description of the program

* 1. **Objectives.** The general objective of this project is to support the sustainability of Micro, Small and Medium Enterprises (MSMEs) as employment providers in Belize amid the COVID-19 crisis. The specific objectives are: (i) to support the short-term financial sustainability of MSMEs; and (ii) to promote the economic recovery of MSME through access to production-oriented finance.
  2. **Single component. Support for MSMEs financing (US$15 million).** The program will provide financing to support MSMEs access to credit resources provided through the DFC and/or IFIs participating in the Program. Resources will be used to support economic recovery by providing loans for working capital and production-oriented finance to MSMEs. This intervention is structured as a loan with the following subcomponents:
  3. **Subcomponent 1.1. Support for improvement of short-term financial capacity (US$3 million).** Resources under this subcomponent will be used to help MSMEs affected by the crisis to overcome temporary liquidity problems and continue operating, being able to comply with their commercial and financial obligations and normalize their business cycle. Credits may support working capital expenses such as, but are not limited to, the acquisition of supplies or merchandise, payment of salaries, taxes, utilities, and for any other purpose related to the maintenance and recovery of economic activity in the short term.
  4. **Subcomponent 1.2. Support for access to production-oriented finance for economic recovery (US$12 million).** Resources under this subcomponent will be used to support economic recovery by providing production-oriented finance to MSMEs. The subcomponent includes credit for investment projects to ensure that MSMEs have the ongoing access to the finance they need to continue operating their businesses, recover from the crisis (including inactive MSMEs that had to close due to COVID-19 but are still economically feasible) or meet increased demand as a consequence of COVID-19. These credit operations will be used for investments related to the purchase of plant, equipment and machinery, the expansion and improvement of infrastructure and retrofits for making businesses COVID resilient, the implementation of new technology, techniques, and processes, and refinancing of previous debts when MSMEs are at risk of default and previous credits were already financing productive investments. As part of this subcomponent, resources will be specifically targeted to finance WSMEs, and will be accompanied by activities to strengthen the DFC capacity to better serve women entrepreneurs, including the design of products and non-financial services targeting women entrepreneurs, gender awareness trainings for loan officers, as well as the implementation of key activities in the DFC’s Gender Equality Policy and Action Plan as described in the loan document. As part of this subcomponent,resources will also support a more sustainable and resilient economic recovery through financing investments for climate adaptation and mitigation in vulnerable sectors such as agriculture, aquaculture (fisheries) and tourism.[[1]](#footnote-2) Additionally, resources will support the resilience of MSMEs to natural disasters through financing investments to reduce MSMEs vulnerability to climate events and natural disasters.

# Characteristics of sub-loans financed under the program

* 1. **Eligible sub-borrowers (beneficiaries)**: To be eligible, MSMEs must meet the following requirements: (i) be formally incorporated under the Companies Act of Belize or registered under the Business Names Act of Belize, or legally recognized individual sole traders operating in Belize; (ii) possess the corresponding licenses and permits required to operate under the laws of the country (iii) meet the requirements to qualify as an MSME in the country (¶2.1); and (iv) be solvent and creditworthy and satisfy the credit requirements of participating financial institutions, with the exception of any factor that has deteriorated as a result of the COVID-19 crisis, and meet the credit requirements of this CR.
  2. Companies that are controlled by or linked to companies or economic groups that do not meet requirements in ¶5.1 of these rules will not be considered eligible. The partner of a company, regardless of its legal status, may not be considered a sub-borrower itself.
  3. **Sub-borrower and sub-loan limits**: The program allow the financing of sub‑loans to the same natural or legal person or for the same sub-project or group of sub-projects that do not exceed US$500,000 or its equivalent in local currency.
  4. **Sub-loan interest charges**: It will be determined by the EA and the eligible IFIs. The EA may charge the beneficiaries for concepts of commissions, insurance or any other charge, the annual rate or rates that are in line with the legislation and policies on interest rates of Belize, and that are compatible with IDB and EA policies regarding maximum interest rates for this type of financing.
  5. **Sub-loan tenor:** Up to 36 months for sub-loans provided under subcomponent 1 and up to 180 months for sub-loans provided under subcomponent 2.
  6. **Sub-loan grace period to capital:** Up to 12 months for sub-loans provided under Subcomponent 1 and up to 48 months for sub-loans provided under Subcomponent 2.
  7. **Risk categories:** The EA and eligible IFI, as appropriate, will adapt the credit analysis and evaluation processes based on the availability of information on each borrower.
  8. **Eligible activities:** The resources may finance exclusively sub-loans for working capital and productive investments. Program resources cannot be used to support new loans with the objective of paying for staff-reduction expenses, fines, dividends, acquisition of real estate, except those associated with an investment project or financing shares purchases or other types of transferable securities. Other prohibited uses appear in the IDB exclusion list in Annex 1.
  9. **Refinancing:** The resources may refinance exclusively sub-loans for productive investments (as per ¶4.4). The same sub-borrower and sub-loan limits and other terms and conditions stated in Section V (as per ¶5.1 to ¶5.8) apply to refinancing debts with program resources. No more than 20% of the program resources will be used to refinancing. The IDB will have to provide its non-objection to all sub-loan operations proposed for refinancing purposes. The IDB and the EA will agree on the information required for the IDB to provide its non-objection.
  10. **Limitation of resources**: In addition to the limitations established in section VII, related to environmental and social issues, sub-loans with program resources may not be granted for: (i) purchase of shares; (ii) purchase of foreign currency, except for needs associated with the sub-project; and (iii) financial assets.

# Regulations to approve and manage first-tier credits

* 1. **Internal regulations of DFC**: In addition to what is stipulated in this CR, for the purposes of granting and managing direct first-tier credit, the definitions, provisions, and procedures stipulated in the Internal Regulations of DFC shall apply (Credit Policy Manual approved 28/05/2020, or the internal regulations that modify, amend, replace, or extinguish it, subject to the no objection of the IDB).
  2. **Sub-borrower and sub-loan limits**: The program allows the financing of sub‑loans to the same natural or legal person or for the same sub-project or group of sub-projects that do not exceed US$500,000 or its equivalent in local currency.
  3. **Interest charges**: It will be determined by the EA. The EA may charge the sub‑borrowers for concepts of commissions, insurance or any other charge, the annual rate or rates that are in line with the legislation and policies on interest rates of Belize, and that are compatible with IDB and EA policies regarding maximum interest rates for this type of financing. The interest rate to be charged to sub-borrowers will be the IDB cost of funding plus a maximum spread of 300 basis points for sub-loans under subcomponent 1 and 500 basis points for sub-loans under subcomponent 2. The interest rates will be updated quarterly following IDB publication of cost of funding for IDB loans.
  4. **Tenor:** Up to 36 months for sub-loans provided under subcomponent 1 and up to 180 months for sub-loans provided under subcomponent 2.
  5. **Grace period to capital:** Up to 12 months for sub-loans provided under subcomponent 1 and up to 48 months for sub-loans provided under subcomponent 2.
  6. **Credit risk assessment:** It is the responsibility of the EA to assess the credit risk of potential sub-borrowers. The credit risk analysis must be carried out for each loan, while considering risk concentration criteria. The credit risk assessment must be carried out in accordance with the provisions of the current credit policy manual and risk management framework of DFC.
  7. **Individual credit reports:** The DFC must prepare and submit to the IDB reports of the direct credits (sub-loans) granted with the resources of this Program, within 15 business days after the end of each quarter. Said information will be part of the semi-annual reports that DFC as executing agency must send to the Bank. Each report must contain the individual detail of the credits including, but not restricted to:
  8. Total credit amount
  9. Total Outstanding amount
  10. Original tenor
  11. Remaining tenor
  12. Interest rate agreed with client (sub-borrower)
  13. Arrears and default
  14. Guarantee / Collateral amount.
  15. Type of guarantee / collateral
  16. District in which the credit is granted.
  17. Gender variable, clarifying if the beneficiaries are led or owned by women.
  18. Green variable
  19. Annual sales
  20. Number of employees
  21. Others that are agreed with the IDB.
  22. In the aforementioned monthly report, DFC will send the information sent by the sub-borrowers in relation to their income from sales and the proof of the number of employees in relation to dependence on those direct credits that are outstanding.
  23. **Recoveries**: The funds from the recoveries of the credits granted by the DFC with the resources of the Program, may be used to grant new credits or to finance their normal operations.
  24. Both the EA and the IDB, through their officials, or consultants hired for this purpose, as well as the firm that audits the program, jointly or individually, will have the right to review the individual files / folders of the final beneficiaries to verify the adequate use of program´s resources when they deem it convenient, as well as to make visits to the financed projects.

# Regulations to approve and manage second-tier credits

* 1. **Internal regulations of DFC**: In addition to what is stipulated in this CR, for the purposes of granting and managing second-tier credit, the definitions, provisions and procedures stipulated in the Internal Regulations of DFC shall apply (Credit Policy Manual approved 05/28/2020, or the internal regulations that modify, amend, replace or extinguish it, subject to the no objection of the IDB).
  2. **Eligible IFIs**: (i) be one of the financial institutions or Credit Unions licensed, authorized and supervised by the Central Bank of Belize (CBB) or the corresponding surveillance and control entity of the financial sector in Belize; (ii) comply with the regulatory requirements in matters of financial conditions (capital, portfolio quality and provisioning, liquidity), governance (organization, management and staffing) accounting, auditing of Belize, the CCB and DFC; and (iii) commit to comply with the specific requirements of the IDB program in accordance with the provisions of these Regulations (Annex 5).
  3. The executing agency will periodically verify that all IFIs meet the previously indicated requirements to continue to be eligible for the program. If, during the life of the program, an IFI does not remain eligible as per ¶7.1-¶7.2 and Annex 5, this IFI will be automatically withdrawn from the roster of eligible entities. Said IFI must conclude the recovery of the sub-loans with program resources in a timely manner, transferring their amounts to DFC so that it, in turn, deposits them in the program´s segregated accounts set up for the program.
  4. Additionally, IFIs should not be included in the list of institutions with current sanctions from FinCEN of the IDB (<https://www.fincen.gov/index.php/>). The executing agency will periodically verify that all IFIs meet the previously indicated requirements to continue to be eligible for the program.
  5. **Sub-borrower and sub-loan limits**: The program allow the financing of sub-loans to the same natural or legal person or for the same sub-project or group of sub-projects that do not exceed US$500.000 or its equivalent in local currency.
  6. **Interest charges**: The EA and IFIs may charge the beneficiaries for concepts of commissions, insurance or any other charge, the annual rate or rates that are in line with the legislation and policies on interest rates of Belize, and that are compatible with IDB and EA policies regarding maximum interest rates for this type of financing. The EA will transfer resources to eligible IFIs and credit unions at a defined passive rate. The defined passive rate will be the IDB cost of funding plus an administrative commission of 50 basis points. The IFIs will charge a maximum spread to sub-borrowers of 300 basis points for sub-loans under subcomponent 1 and 500 basis points for sub-loans under subcomponent 2. It will be determined by the EA and the eligible IFIs.
  7. **Tenor:** Up to 36 months for sub-loans to beneficiaries provided under subcomponent 1 and up to 180 months for sub-loans to beneficiaries provided under subcomponent 2. These tenor caps apply to on-lending operations of DFC with eligible IFIs.
  8. **Grace period to capital:** Up to 12 months for sub-loans to beneficiaries provided under subcomponent 1 and up to 48 months for sub-loans to beneficiaries provided under subcomponent 2. These grace period to capital caps apply to on-lending operations of DFC with eligible IFIs.
  9. **Credit risk assessment:** It is responsibility of the IFI to assess the credit risk of potential sub-borrowers. The credit risk analysis must be carried out for each loan, while taking into account risk concentration criteria. The credit risk assessment must be carried out in accordance with the Loan Classification System of the Supervisory Body- the CBB.
  10. **IFIs responsibilities:** The IFIs will be responsible for: (i) assessing credit risk and approving sub-loan proposals; (ii) verifying that MSMEs are eligible according to the CR and that they are complying with the program criteria; (iii) assuming responsibility for supervising the execution and the amortization of the sub-loans; and (iii) returning to DFC the amortization of the resources lent at the end of sub-loan term; and (iv) assuming responsibility for pursuing the collection of the subloan resources to the full extent of the law in case of a default and reimbursing the trust with any collected amount in proportion to the credit exposure defined.
  11. **Individual credit reports:** The IFI must prepare and submit to the DFC reports of the direct credits (sub-loans) granted with the resources of this program, within 15 business days after the end of each quarter. Said information will be part of the semi-annual reports that DFC as executing agency must send to the Bank. Each report must contain the individual detail of the credits including, but not restricted to:
  12. Total credit amount
  13. Total Outstanding amount
  14. Original tenor
  15. Remaining tenor
  16. Interest rate agreed with client (sub-borrower)
  17. Monthly or periodic debt service payments
  18. Arrears and default
  19. Guarantee/Collateral amount.
  20. Type of guarantee/collateral
  21. District in which the credit is granted.
  22. Gender variable, clarifying if the beneficiaries are led or owned by women.
  23. Green variable
  24. Annual sales
  25. Number of employees
  26. Others that are agreed with the IDB.
  27. DFC will compile and submit to the IADB the information sent by the IFIs regarding sub-borrowers in relation to their income from sales and the proof of the number of employees in relation to dependence on those direct credits that are outstanding.
  28. **Quota per IFI**: Quotas of program resources per IFI will be defined between the Bank and the executing agency, according to the criteria agreed between the parties. An IFI cannot receive more than 50% of the program resources.
  29. **Recoveries**: The funds from the recoveries of the sub-loans granted with the resources of the program that accumulate in excess of the amounts necessary to service the IDB loan, may only be used for the granting of new sub-loans that substantially comply with the objectives and standards included in the contract and RC of this program.
  30. **Substitutions**: The executing agency commits to verify that IFIs replace the portfolio that falls into the default categories once the program disbursement period has expired. In this sense, it is expected that the sub-loans, as of two months after the last disbursement of the program, will be found, in accordance with the parameters established by local regulations and the executing agency for replacement of default loans. IFI´s will be responsible to provide DFC with a report on only loans deleted and substituted in any quarterly reporting cycle.
  31. **Credit Policy**: For the purposes of this Regulation, it will be applied the definitions and provisions stipulated in the General Credit Regulation for First and Second Tier Operations of the EA will be applied, or the internal regulations that modify, amend, replace, or extinguish it, subject to the no objection of the Bank.
  32. **Guarantees:** IFIs may require the creation of sufficient guarantees by the final beneficiary/sub-borrower, in accordance with the provisions of their internal credit regulations and this CR, in the context of the COVID-19 emergency.
  33. **Co-financing**: Any sub-loan may be subject to co-financing from other sources, including other multilateral institutions of the same nature as the IDB, other government programs, the IFIs, and private companies interested in developing investment projects in the context of the COVID-19 emergency.

# Other requirements of sub-loans financed under the program

* 1. In all sub-loans granted with resources of the program, the following conditions must be met.
  2. **Compliance obligations**. The executing agency commits to: (i) ensure due follow-up regarding compliance of the sub-loans with financial regulations applicable in Belize; (ii) analyze and review periodically the capacities of the eligible IFIs to ensure that they comply with regulatory provisions regarding compliance; (iii) for sub-loans greater than US$30,000, inform the final beneficiary of the provisions against prohibited practices of the IDB policy by written notification following the format established in Annex 3; and (iv) notify the Bank of any material adverse effect identified in the IFIs or in the sub-loans granted.
  3. **Use of sub-loans**. The final beneficiary must commit that the goods and services financed through the program will comply with the use of resources stipulated in the loan documents and in accordance with this CR. This provision must be stipulated in the sub-loan contract (or in an attached document) granted by DFC and/or the eligible IFIs.
  4. **Right of inspection**. Both the EA and the IDB, through their officials, or consultants hired for this purpose, as well as the firm that performs the audit of the program, jointly or individually, will have the right to review the individual files / folders of the beneficiaries to verify the proper use of program resources when they deem it convenient. Likewise, the IDB has the right to examine the assets, places, works, and buildings of the respective sub-loans, including everything related to compliance with socio-environmental conditions. The EA staff will always coordinate and lead this inspection. This provision must be stipulated in the loan contract between the executing agency or the IFI and the final beneficiary.
  5. **The obligation to deliver information**. The EA and the IDB have the right to request from the final beneficiary all the information regarding its performance and its financial and socio-environmental situation. The EA will coordinate and lead the delivery of this information, which in turn will serve to prepare the supervision and evaluation reports of the program. This provision must be stipulated in the loan agreement between the EA or the IFI and the final beneficiary, as well as between the EA and the IFI.
  6. **The right to cancel disbursements**. The IDB has the right at any time during the life of the loan, to cancel disbursements and / or request the early amortization of the sub-loans under this program, if the final beneficiary does not comply with its obligations related to the use of the loan and the limitation of the destination of the resources in accordance with the stipulations of this RC and its Annexes. In these cases, the EA will require to the IFI to replace from the program portfolio any sub-loan that defaults for the reasons previously mentioned and remains in default for a period exceeding sixty (60) days.

# Social and Environmental requirements (‘ESMS of the program’)

* 1. The DFC will:
* Comply with all applicable ESHS and labor regulatory requirements.
* Require an affidavit from the participating IFI for subprojects above US$250,000, confirming that the subproject is in compliance with the E&S requirements detailed in the Program CR.
  1. Only those MSMEs and subprojects that meet the following eligibility criteria will be eligible for financing with resources from program:
     1. Compliance with the program exclusion list in Annex 1. of this document.
     2. Compliance with applicable local regulation.
     3. Compliance with the policies of the executing agency.
     4. Compliance with the maximum amount for individual financing of US$500.000.
     5. In the case of projects involving the replacement of equipment or its components, especially those related to the activities in Annex 4, comply with the protocol for the disposal of replaced equipment and materials (Annex 6).
  2. The EA will be responsible for ensuring compliance of the program with the CR, as well as coordinating the supervising the monitoring and evaluation requirements regarding socio-environmental Risks. In particular, it must present every six months - within the established deadlines for the entry of the Progress Monitoring Report (PMR), a Compliance Report of Socio‑Environmental Risk Management Practices with information on the financed portfolio of sub-loans with program resources, the identified socio-environmental risk and their mitigation measures, and the status of compliance of the projects with this CR (see Annex 2).
  3. The IDB will supervise the application of the ESMS of the program (as required by an IDB specialist or an external consultant hired by the IDB). To this end, the EA will provide and facilitate the IDB access to all relevant documentation, personnel, and financed projects.
  4. If necessary, the IDB and the executing agency will agree on actions or corrective measures necessary to solve adverse impacts and risks and / or to improve their management.

# Result indicators of the Program

* 1. The program’s expected impact is to support the sustainability of MSMEs amid the COVID-19 crisis, as measured by: (i) yearly sales revenue of MSMEs; and (ii) percentage of employment registered in MSMEs over total employment registered in the country.
  2. The outcome indicators for the program will be as follows:
* Under specific objective 1: (i) rate of NPL of the MSME working capital financing portfolio over rate of NPL of the total financial system, 6 months after the beginning of the project; (ii) survival rate of companies supported with short-term financing instruments up to 24 months after the declaration of a pandemic due to the COVID-19 disease; and (iii) percentage of the value of loans allocated to women MSMEs in the productive sectors portfolio.
* Under specific objective 2: (i) rate of NPL of the productive MSME financing portfolio over rate of NPL of the total financial system, 24 months after the beginning of the project; (ii) proportion of medium-term credit (more than 36 months) in the relevant portfolio; (iii) percentage of the value of loans allocated to women MSMEs in the productive sectors portfolio; (iv) percentage of the program’s relevant portfolio destined to support a more sustainable and resilient economic recovery promoted through financing new investments in climate change adaptation and mitigation; (v) total mobilization of medium-term private resources achieved as a result of the program support; and (vi) total amount of the relevant portfolio of production-oriented finance achieved as a result of program support

# Program reporting and monitoring

* 1. As part of program execution, the following monitoring and evaluation instruments have been identified:

1. Semi-annual monitoring reports in which the EA reports to the IDB the progress in the execution of the planned activities, including the fulfillment of previously agreed objectives for the result indicators described in the results matrix of the program and included in section X of this document.
2. Technical / fiduciary supervision visits made by the IDB Project Team to the executing agency, the IFIs, and the final beneficiaries.
3. Annual financial audits of the Program.
4. Environmental Safeguards and Sustainability Compliance Assessments (ESG)
5. Ex-post cost-benefit analysis of income and expenses flows derived from the program.
   1. The EA will provide annual reports to the IDB, which must be submitted no later than sixty (60) days after the end of the second semester during the disbursement period of the loan, including extensions. These annual reports, in addition to the information of the semi-annual reports (11.1a), must include, at least, the following information:
6. Information to verify compliance with the fiduciary and financial requirements of the program (including information on the amount and use of the sub-loans, the local contribution and other sources, if any, applied to the sub-loans);
7. Information on corrective measures applied, including measures to prevent access to financing from loan proceeds in the event of non-compliance with the requirements established in this credit regulations.
8. Lessons learned from the reported period and opportunities for improvement. These reports must include at least the evolution of the indicators included in the results matrix of this program, the progress in the subprojects financed, detailing the value of sales and the number of jobs created, among others.
9. Information on the implementation of the activities aimed to strengthen the DFC capacity to better serve women entrepreneurs, including the design of products and non-financial services targeting women entrepreneurs and gender awareness training for loan officers, as well as the implementation of key activities in the DFC’s Gender Equality Policy and Action Plan related to mainstreaming gender into loan cycles and develop new financial products to address unmet needs by women.
   1. **Request for information**. The EA commits to carry out periodic monitoring reports on the portfolio funded with the resources of this program. The EA will request from the eligible IFIs the information it deems necessary for the execution of the program. The analysis must contain the individual details of the sub-loans granted with program resources, including, but not limited to:

* Total amount
* Destination of resources
* Original term
* Remaining term
* Interest rate agreed with the client.
* Periodic debt service payments.
* Default rate of the MSME portfolio of program beneficiaries
* Amount of guarantee
* Type of guarantee
* Risk classification of the client at the time of the sub-loan approval
* Credit destination
* Gender variable (see ¶2.2)
* Green variable (see ¶2.4)
* Annual sales of the beneficiary MSMEs
* Number of employees of the beneficiary MSMEs
* Classification and sub-classification of MSMEs in the sector of economic activity.
* Others that are agreed with the IDB within the framework of the Monitoring and Evaluation Plan
  1. The EA must follow the procedures established in the Monitoring and Evaluation Plan of the program. In particular, the procedures and activities established in Numeral [3] of the aforementioned document will be followed, including those related to the counting of the operations of women-owned companies in order to comply with the provisions of the program.
  2. The EA will agree with the IDB, during the disbursement period of the IDB loan, to hold a bi-monthly follow-up meeting, in which the following will be discussed: (i) the progress of the program activities; and (ii) the level of compliance with the indicators established in the results matrix, including allocation targets for WMSMEs and investments for climate adaptation and mitigation. Steps will be taken to correct any significant deviations observed from the indicators. An action plan with specific measures may be agreed and developed, if necessary.

# Financial management agreements for the program

* 1. **Administrative Resources and Systems**. The EA will use its resources and administrative, financial, and accounting systems for the registration and administration of sub-loan operations that are administered with the resources of the program in accordance with the current financial regulation applicable to that entity and in consistency with the Financial Management Policy for Projects Financed by the IDB (OP-273-12).
  2. **Identification of Resources**. The EA will parameterize in its own system the identification of program resources, to distinguish them at the budgetary, accounting, and treasury level, throughout the life of the program and in accordance with the Financial Management Policy for Projects Financed by the IDB (OP-273-12).
  3. **Disbursements and Cash Flows**. The IDB will disburse program resources under any of the modalities defined in the Financial Management Policy for Projects Financed by the IDB (OP 273 12).
  4. **Operating Account**. The EA will maintain one or more special accounts that are segregated for accounting and operational purposes to be able to manage program resources separately from where the corresponding disbursements of sub-loans will be made. Likewise, each eligible IFI of the program must maintain separate and individual information on each final beneficiary of the program. In accordance with the provisions of the Financial Management Policy for Projects Financed by the IDB (OP-273-12), disbursements will be made based on liquidity needs. The EA will prepare a financial plan, which will serve as basis for advances or other disbursement modality deemed appropriate.
  5. **Supervision**. For the financial monitoring of the program, the (unaudited) financial reports produced by the executing agency's systems will be used and the necessary breakdown will be detailed in the corresponding notes and complementary financial information. Preliminarily, these reports will be required semiannually, and the frequency can be adjusted later. The explanatory notes to the financial information will be designed to be consistent with the IDB's policy and monitoring tools (Instructions for Financial Reports and External Audit Management of IDB-Financed Operations).
  6. **IDB Fiduciary Supervision**. The IDB financial specialist will be able to conduct “on-site” reviews and will perform “desk” reviews on the program's audited annual financial statements. These financial statements will be detailed in the notes to the EA's periodic financial statements. The fiduciary supervision visits for financial management purposes will include the verification of the financial and accounting arrangements used for the administration of the program and the follow-up of the implementation of the recommendations that the independent auditor of this program may issue, among others. The auditor will verify that the resources have been directed to final beneficiaries, according to the conditions stipulated in this CR. Finally, within its powers is to carry out inspection visits to the final beneficiaries.
  7. **Internal Control.** The EA will apply its own regulations and management of its Internal Audit Committee, Credit Committee and Risk Committee to carry out internal control of the program.
  8. In accordance with the provisions of the Loan Contract, the IDB will be allowed to inspect the program execution status at any time and verify compliance with the requirements established for the use of loan resources. In this sense: (i) The Internal Auditor of the EA or his delegate, will be able to access all the relevant information that is required within the framework of the program; (ii) the IDB may at any time inspect the status of program execution, and review the records and documents related to its execution; and (iii) the executing agency must give its full cooperation to this activity.
  9. **External control and reports**. External control of the program will be entrusted to a firm of independent auditors acceptable to the IDB. The EA will be responsible to hire the firm and this firm may be the same one that audits the entity's Financial Statements, as long as it is on the list of firms eligible for the IDB. In the event of a competitive process, the guidelines established in the Instructions for Financial Reports and External Audit Management of Operations Financed by the IDB must be followed. The terms of reference must be previously agreed upon with the IDB, and the contracting process will be reviewed ex ante. The annual financial statements will be prepared in accordance with the IDB Financial Reporting and Auditing Guide.
  10. **Maintenance of regulatory ratios**. The EA commits to maintain solvency and liquidity ratios above the regulatory minimums established at all times. For this purpose, the EA must submit, along with the Financial Statements, a section showing their monthly evolution of these ratios.
  11. **External Audit Report.** The external auditor will present a report detailing that the program's resources have been used for the defined purposes. The external auditor verify: (i) the existence of the sub-loans financed under the program; (ii) resources to be channeled through the EA and the IFIs to the final beneficiaries, follow this credit regulations; It may also carry out (physical) inspection visits to both the IFIs and the final beneficiaries of the subprojects financed under the program. In addition, the external auditor will carry out inspection visits to the final beneficiaries. The audited financial statements of the program will be sent to the IDB no later than four (4) months after the end of the corresponding fiscal year. The EA must ensure that the funds corresponding to the audit services are available and have been retained and saved until the closing date of the program.

# Modifications to legal provisions and to this credit regulations

* 1. The executing agency may suggest modifications to this CR to adapt to new circumstances or conditions that may be presented during the implementation of the program and this CR. Any material changes in the CR that applies to the program must have the written consent of the IDB. If any provision in this CR is not consistent or is in contradiction with the provisions of the loan contract with the IDB, the provisions of the IDB loan contract will prevail.

# Annex 1: IDB Environmental and Social Exclusion List

The IDB will not knowingly finance, directly, or indirectly through FIs, projects involved in the production, trade, or use of the products, substances, or activities listed below.

**1. PROHIBITED ACTIVITIES**

a. Activities that are illegal under host country laws, regulations or ratified international conventions and agreements, or subject to international phase out or bans, such as:

1. Polychlorinated biphenyl compounds (PCBs).
2. Pharmaceuticals, pesticides/herbicides, and other hazardous substances subject to international phaseouts or bans.[[2]](#footnote-3)
3. Persistent Organic Pollutants (POPs).[[3]](#footnote-4)
4. Ozone-depleting substances subject to international phase-out.[[4]](#footnote-5)
5. Wildlife or wildlife products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora.[[5]](#footnote-6)
6. Transboundary trade in waste or waste products,[[6]](#footnote-7) except for nonhazardous waste destined for recycling.
7. Lead paint or coatings in the construction of structures and roads.[[7]](#footnote-8)

b. Activities that are illegal under host country laws, regulations, or ratified international conventions and agreements relating to the protection of biodiversity resources or cultural heritage.

**2. OTHER ACTIVITIES**

a. Activities that, although consistent with a country’s legal and/or regulatory framework, may generate particularly significant adverse impacts on people and/or the environment, such as:

1. Weapons, ammunitions, and other military goods/technology.
2. Tobacco.[[8]](#footnote-9)
3. Gambling, casinos, and equivalent enterprises.[[9]](#footnote-10)
4. Radioactive materials.[[10]](#footnote-11)
5. Unbonded asbestos fibers or asbestos containing products.
6. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.

b. Activities that are inconsistent with the IDB’s commitments to address the challenges of climate change and promote environmental and social sustainability, such as:

1. Thermal coal mining or coal-fired power generation and associated facilities.[[11]](#footnote-12)
2. Upstream oil exploration and development projects.[[12]](#footnote-13)
3. Upstream gas exploration and development projects.[[13]](#footnote-14) Under exceptional circumstances and on a case-by-case basis, consideration will be given to financing upstream gas infrastructure where there is a clear benefit in terms of energy access for the poor and where GHG emissions are minimized, projects are consistent with national goals on climate change, and risks of stranded assets are properly analyzed.

In addition, for this Program, the following subprojects will be excluded:

* Subprojects involving a potential negative impact on established protected areas and cultural sites.
* Subprojects involving the introduction of invasive species.
* Subprojects involving the involuntary resettlement of population even temporary.
* Subprojects involving the economic displacement of population even temporary.
* Subprojects involving the acquisition or use of land that is the object of demands.
* Subprojects involving the following activities: mining, forestry, and logging, large scale farming and agriculture (more than 3000 has), and extensive livestock farming on surfaces larger than 12,000Has and feedlots of more than 2,500 animals.

# Annex 2: Semi-Annual Socio-Environmental Performance Report

The executor must submit a semi-annual Socio-Environmental Risk Management Compliance Report - within the deadlines established for the submission of the PMR - which includes the following information:

1. By sector (CNAE): number of subprojects financed, total amount disbursed, average amount per subproject.
2. Relevant information on socio-environmental issues related to MSME beneficiaries of the project (if any).
3. Relevant information on socio-environmental issues within the institution. (organizational changes, etc).
4. Relevant national or subnational regulatory information (regulatory changes etc).
5. Attach an ESHS affidavit from the participating IFI for subprojects above US$250,000.

# Annex 3: IDB compliance policy and format for written notification to beneficiaries

* 1. The IDB requires compliance with the principle of integrity in the activities it finances. The principle of integrity refers to the use of IDB financing for its intended purposes and good governance practices; that participants refrain from engaging in Prohibited Practices; and that they report to the IDB all acts that may constitute a Prohibited Practice.[[14]](#footnote-15)
  2. IDB has established mechanisms to report the alleged commission of Prohibited Practices. Any complaint must be forwarded to the IDB Office of Institutional Integrity (OII) for it to be duly investigated. The IDB has also adopted sanction procedures for the resolution of cases. Likewise, the IDB has entered into agreements with other international financial institutions in order to give reciprocal recognition to the sanctions imposed by their respective sanctioning bodies.
  3. Any information related to a possible event of prohibited practices in the program must be communicated as soon as possible to the Office of Institutional Integrity of the IDB by email ([oii-reportfraud@iadb.org](mailto:oii-reportfraud@iadb.org)) or electronically (at <https://cuentame.iadb.org>). Other reporting channels can be found on the IDB website ([www.iadb.org/integridad](http://www.iadb.org/integridad)).
  4. The EA will ensure that the IFIs communicate the IDB's integrity requirements to the beneficiaries through the notification included below and mentioned in ¶8.2 of this CR.

**Notification template**

[City, date]

Subject: Credit financed with resources from the Inter-American Development Bank

Dear Madams/Sirs,

We refer to Promissory Note No. [XXX] signed between [financial institution] and [name of beneficiary] (hereinafter the “Promissory Note”).

We hereby notify you that the loan resources referred to in the Promissory Note have been financed by the Inter-American Development Bank (hereinafter “IDB”) under Loan Agreement No. [XXX] for the Global Credit Program for Safeguarding the Productive Sectors and Employment, and therefore are subject to the policies and Sanctions Procedures of the IDB.

As part of its policies, the IDB requires the highest ethical standards in all the activities it finances and therefore any suspicious act that may constitute one of the following practices must be reported to the Bank: fraud, collusion, corruption, coercion, obstruction and misappropriation, collectively called "Prohibited Practices." *”[[15]](#footnote-16)*

Consequently, we inform you that the IDB may investigate any suspicious activity arising from a report or information received by the Bank regarding the occurrence of Prohibited Practices in connection with the use of the Promissory Note resources. If the IDB verifies the occurrence of a prohibited practice, the IDB may impose the corresponding sanctions in accordance with IDB policies, without prejudice to any civil, criminal, or other actions that may arise, in accordance with the applicable national regulations.

The foregoing does not modify the credit conditions presented in this Promissory Note issued by [institution].

# Annex 4: Positive list of investments aligned with climate change

Climate change aligned investments have been identified through the implementation of the DFC Climate Change Policy and the application of the Climate Risk Vulnerability Assessment Tool, that is applied as a first screening tool by credit officers during the credit appraisal process (for all housing and productive sector loans), and then developed in detail by a climate specialist as a complete assessment for projects screened as having a moderate/high/very high climate and disaster risk profile (see [OEL#13](http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=EZSHARE-51047488-19) of DLP).

Climate change aligned investments are divided in mitigation and adaptation investments:

DFC Climate Change policy sets different sector priorities for mitigation activities, including REDD+ and Forestry; Biodiversity and Protected Areas; Transportation and Sustainable Energy.

Accordingly, **Climate Mitigation Eligible technologies**:

Energy and Resource Efficiency

* Photo Voltaic Systems (with a generation limit of 75kw) and Solar water heating
* Mini wind turbines
* DC or Solar powered pumps and motors
* Energy Monitoring systems
* High efficiency Air conditioning systems (with Seasonal Energy Efficiency Ratings (SEER) 25 and above) and changing of refrigerant coolants from R410a to R22 types
* Building envelopes and exterior shading, considering minimum R-value thresholds recommended for the Gulf of Mexico region (zone 1 and 2) by [Energy Star](https://www.energystar.gov/campaign/seal_insulate/identify_problems_you_want_fix/diy_checks_inspections/insulation_r_values)
* Replacement of traditional lighting fixtures to Light Emitting Diodes (LEDs) / installation of automatic switches
* Low flow plumbing device
* Fuel Efficient transportation or Hybrids to facilitate public transportation in underserved areas to support Belize NDC for the transportation sector.
* Water catchment and conservation

Agriculture, Livestock and Fisheries

* Agro-processing and value-added investments to maximize production utility in times of over production (e.g. drying and packaging of fruits). Such investments must utilize energy efficient or renewable energy technologies and must demonstrate potential for reduced reliance on deforested land to facilitate primary production.
* Reduction of energy consumption in agriculture operations.
* Agricultural projects that contribute to increasing the carbon stock in the soil (e.g., composting) or avoiding the loss of soil carbon through erosion control measures.
* Reduction of GHG emissions other than CO2 from agricultural practices or technologies: Projects that reduce methane or other GHG emissions from livestock.
* Livestock projects that improve carbon sequestration through the management of distribution lands – provided livestock surface is smaller than 12,000 ha and feedlots size not larger than 2,500 animals.
* Forestry or agroforestry projects that sequester carbon through sustainable forest management, avoid deforestation or avoid/ reduce land degradation – provided operations areas do not exceed 3000 ha.
* Projects that reduce the intensity of CO2 in fishing or aquaculture.
* Projects that reduce food losses or waste or promote lower carbon diets.
* Projects that contribute to the reduction of GHG emissions through the production of biomaterials / bioenergy from biomass.
* Shade-grown agriculture that increases CO2 sequestration of agricultural practices - provided operations areas do not exceed 3000 ha.
* Silvo pastoral activities and livestock management practices that increase CO2 sequestration – provided livestock surface is smaller than 12,000 ha and feedlots size not larger than 2,500 animals.

Tourism

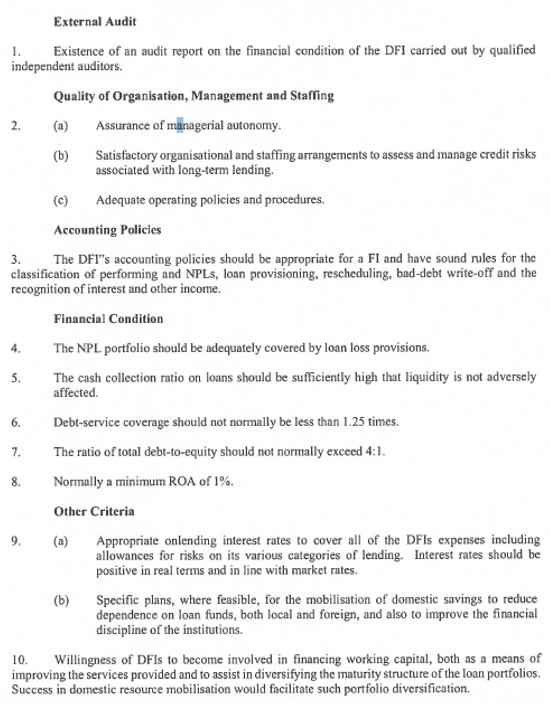
* Projects for training, qualification and specialization of personnel and training modules that incorporate skills related to the preservation of ecosystems, sustainability actions in hotel activities, actions to minimize the climatic impact on tourism, among other related skills.
* Municipal or regional tourism development plans that encourage eco-tourism, the preservation of ecosystems and/or the expansion of existing natural parks or the creation of new ones.
* Executive projects and the preparation of business plans and economic and financial feasibility studies related to eco-tourism or adventure tourism.
* Technical support/assistance to medium and small entrepreneurs in the sector that are related to the preservation of ecosystems, sustainability actions in the hotel activity, actions to minimize the climatic impact on tourism, among other related activities.

**For Adaptation, priorities sectors and key risks are defined as**

Agriculture, due to drought risks, climate related plagues for crops and animals; water stress and extreme precipitation. Tourism, due to exposure to coastal erosion, natural resources depletion; Fisheries and Aquaculture, due to productivity declines associated with temperature increases, pollution; Coastal Management, due to exposure to extreme events and early warning systems; and Water Management. **Climate Adaptation Eligible Technologies include lending to:**

* Irrigation (drip and sprinkler) and Drainage systems (including flood controls) – provided clients acquire water abstraction and other relevant permits from Ministry of Environment.
* Drought and disease tolerant animal breeds and crop varieties
* Covered Structures for vegetable cultivation – including insurance of same against extreme weather events.
* Water Harvesting, water storage, catchment and conservation - typically small-scale cattle production (lined water ponds) and vegetable production (water tanks)
* Improved agronomic and animal husbandry practices.
* Integrated pest management utilizing barrier crops and biological control where possible.
* Soil Moisture conservation and erosion control
* Early warning systems

# Annex 5: Eligibility criteria for IFIs



# Annex 6: Disposal protocol for replaced equipment and materials

**Template**

User (borrower or sub-borrower):

Name of the subproject:

Declaration:

Under oath and aware of the penalties incurred by those who falsely declare before an authority other than the judicial, the signatory of this document undertakes to carry out the final disposal of the equipment and materials replaced during the course of the project, ensuring that such obsolete equipment treated as waste has its proper disposal, having photographic evidence of the disabling of obsolete equipment and manifest of Delivery, Transport, and Receipt of Waste, which can be verified by the entities, which in case of omission or falsity, may cancel the procedure and/or exercise the corresponding actions.

Description of the equipment to be removed:

Name of the equipment:

Model:

Serial no:

Signature:

Date:

1. As for climate change adaptation, eligible investments will include Water efficient irrigation (drip and sprinkler), drainage systems, drought and disease tolerant crops and animal breeds, water harvesting, soil moisture conservation and erosion control, covered structures for controlled-atmosphere vegetable cultivation. For mitigation, eligible investments will include Solar photovoltaic systems, solar water heating, solar power pumps and motors, energy monitoring systems, High efficiency air conditioning systems, replacement of lighting fixtures to induction lamps and installation of automatic light switches, fuel efficient transportation and/or hybrid vehicles. [↑](#footnote-ref-2)
2. Reference documents are: Council Regulation (EEC) No 2455/92 of 23 July 1992 Concerning the Export and Import of Certain Dangerous Chemicals, as amended from time to time; United Nations Consolidated List of Products whose Consumption and/or Sale have been Banned, Withdrawn, Severely Restricted or not Approved by Governments; Convention on the Prior Informed Consent Procedures for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention); Stockholm Convention on Persistent Organic Pollutants; World Health Organization Recommended Classification of Pesticides by Hazard, World Health Organization Pharmaceuticals: Restrictions in Use and Availability [↑](#footnote-ref-3)
3. Stockholm Convention on Persistent Organic Pollutants as amended in 2009 [↑](#footnote-ref-4)
4. Ozone-depleting substances (ODSs) are chemical compounds which react with and deplete stratospheric ozone, resulting in the widely publicized ‘ozone holes.’ The Montreal Protocol lists ODSs and their target reduction and phase- out dates. The chemical compounds regulated by the Montreal Protocol include aerosols, refrigerants, foam-blowing agents, solvents, and fire protection agents. (https://ozone.unep.org/treaties/montreal-protocol) [↑](#footnote-ref-5)
5. [www.cites.org](http://www.cites.org) [↑](#footnote-ref-6)
6. As defined by the Basel Convention (www.basel.int). [↑](#footnote-ref-7)
7. Paints or coatings with a total lead concentration great than 90 ppm or the concentration limit set by the host country, whichever is lower. [↑](#footnote-ref-8)
8. This does not apply to projects whose primary objective is not related to the production, trade, or use of tobacco. [↑](#footnote-ref-9)
9. This does not apply to projects whose primary objective is not related to the construction and operation of gambling, casinos, and equivalent enterprises. [↑](#footnote-ref-10)
10. This does not apply to the purchase of medical equipment, quality control (measurement) equipment, or any equipment where it can be demonstrated that the radioactive source is trivial and/or adequately shielded. [↑](#footnote-ref-11)
11. This applies only to associated facilities which primary objective is related to the production, trade, or use of coal for power generation or to the transmission of energy generated by a coal-fired power plant (e.g., a dedicated transmission line). [↑](#footnote-ref-12)
12. Upstream oil and gas exploration and development refer to all the steps involved from the preliminary exploration through the extraction of the resource. [↑](#footnote-ref-13)
13. Idem. [↑](#footnote-ref-14)
14. The IDB prohibits the following practices:

    (i) *A corrupt practice* that consists in offering, giving, receiving, or requesting, directly or indirectly, anything of value to improperly influence the actions of another party;

    (ii) *A fraudulent practice* that is any act or omission, including misrepresentation of facts and circumstances, that deliberately or recklessly misleads, or attempts to mislead, any party to obtain a financial or other benefit or to evade an obligation;

    (iii) *A coercive practice* that consists of harming or causing harm, or threatening to harm or harm, directly or indirectly, any party or its property to improperly influence the actions of a party;

    (iv) *A collusive practice* that is an agreement between two or more parties made with the intention of achieving an inappropriate purpose, including improperly influencing the actions of another party;

    (v) *An obstructive practice* consisting of

    a. to. destroy, falsify, alter, or conceal significant evidence for an IDB Group investigation, or make false statements to investigators with the intent to impede an IDB Group investigation;

    b. threaten, harass or intimidate any party to prevent them from disclosing their knowledge of matters that are important to an IDB Group investigation or from continuing the investigation; or

    c. acts carried out with the intention of preventing the exercise of the contractual audit and inspection rights of the IDB Group, or its rights of access to information.

    (vi) *Misappropriation* that consists of the use of IDB Group funds or resources for an improper purpose or for an unauthorized purpose, committed intentionally or through gross negligence. [↑](#footnote-ref-15)
15. Information is provided on the Bank's virtual site ([www.iadb.org/integrity](http://www.iadb.org/integrity)) for filing complaints about the alleged occurrence of prohibited practices, the rules applicable to the investigation and sanction process, and the reciprocal recognition agreement. of sanctions between international financial institutions. [↑](#footnote-ref-16)