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# IDB COUNTRY STRATEGY WITH BELIZE

# 2013–2017

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# ELECTRONIC LINKS

**Required electronic links**

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2. Portfolio Report
3. Education Sector Note
4. Tourism Sector Note
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21. The Pension System of Belize: Assessment and Policy Options
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## ABBREVIATIONS

| | |
|---|---|
| **BAHA** | Belize Agricultural Health Authority |
| **BEL** | Belize Electricity Limited |
| **BELTRAIDE** | Belize Trade and Investment Development Services |
| **BTL** | Belize Telemedia Limited |
| **CABEI** | Central American Bank for Economic Integration |
| **CAPS** | Community Action for Public Safety |
| **CBB** | Central Bank of Belize |
| **CCCCC** | Caribbean Community Climate Change Center |
| **CDB** | Caribbean Development Bank |
| **CReW** | Caribbean Regional Fund for Wastewater Management |
| **DBFIA** | Domestic Banks and Financial Institutions Act |
| **EU** | European Union |
| **GDP** | Gross Domestic Product |
| **GOB** | Government of Belize |
| **GST** | General Sales Tax |
| **IDB** | Inter-American Development Bank |
| **IIC** | Inter-American Investment Corporation |
| **IMF** | International Monetary Fund |
| **LAC** | Latin America and the Caribbean |
| **MDG** | Millennium Development Goal |
| **MFED** | Ministry of Finance and Economic Development |
| **MIF** | Multilateral Investment Fund |
| **MOF** | Ministry of Finance |
| **NIIP** | Net International Investment Position |
| **NPLs** | Non-Performing Loans |
| **NSG** | Non-Sovereign Guarantee |
| **NSTMP** | National Sustainable Tourism Masterplan |
| **OFID** | OPEC Fund for International Development |
| **PFM** | Public Financial Management |
| **SCF** | Structured Corporate Finance |
| **SDR** | Special Drawing Rights |
| **SEP** | Social Entrepreneurship Program |
| **SG** | Sovereign Guarantee |
| **SME** | Small and Medium Enterprises |
| **TC** | Technical Cooperation |
| **TFFP** | Trade Finance Facilitation Program |

# EXECUTIVE SUMMARY

| | |
|---|---|
| **Country context** | Belize has the second smallest population and the smallest economy of IDB borrowing members. The country is highly vulnerable to hurricanes, tropical storms and flooding. Development progress has slowed in the last decade. Real GDP growth averaged only 3.2% from 2003-2012, per capita income (at US$4,706) has remained broadly unchanged in real terms since 2004, and poverty remains high at 41%. Belize's rich natural resources provide it with significant potential for economic growth based on tourism and agriculture, but such growth is constrained by distortions in the trade and tax policy regime, high cost of finance, and significant transportation bottlenecks. Maintaining fiscal sustainability is a key challenge given the country's 71% debt-to-GDP ratio, implying the need to secure more efficient and effective public services and effective control over discretionary spending. In terms of the efficiency of public services, the gap between high spending levels and development results is particularly acute in the education sector, where poor outcomes are associated with persistent poverty and growing crime and violence. |
| **The IDB in Belize** | The IDB accounts for 12% of total external debt and 43% of multilateral debt. From 2008-2012, annual IDB disbursements averaged 0.6% of GDP, 2.1% of total government spending and 14.5% of capital spending. The 2008-2012 country strategy supported government efforts to improve fiscal management; create the conditions for and restore sustainable, private sector-led growth; improve human resource development and social protection; and rehabilitate road infrastructure. |
| **Priority areas 2013-2017** | The proposed 2013-2017 Country Strategy aims to support the Government of Belize in improving public expenditure efficiency and effectiveness and promoting private sector development and sustainable export-led growth, by concentrating on four priority areas: (i) education; (ii) tourism; (iii) transport; and (iv) trade and tax policy. |
| **Lending framework** | The Bank is proposing two financing scenarios for sovereign guaranteed lending. The Baseline Scenario would consist of up to US$85 million concentrated in four or five investment loans. The High Scenario consists of the Baseline Scenario plus support for a substantial package of policy reforms to enhance growth and fiscal sustainability, for a total of up to US$135 million. |
| **Strategy implementation** | The strategy has been developed with consideration of the country's limited absorptive capacity. The IDB will continue to support efforts to strengthen execution capacity and country systems in Belize and to increase the country's absorptive capacity over time. |
| **Main risks** | Risks include the possibility of shocks to macroeconomic sustainability, delays in implementation of investment programs, and the occurrence of a significant natural disaster during the strategy period. |

# BELIZE COUNTRY STRATEGY RESULTS MATRIX

| Country Development Goals | IDB Priority Sector | IDB Strategic Objectives | Expected Results of the Strategy | Indicators | Baseline Values[1] |
|---|---|---|---|---|---|
| Improve quality and relevance of education at all levels | Education | Improve governance and quality of education relative to investment in the sector | Improved teaching quality | Proportion of prospective teachers in Belize with an overall grade of B or higher on the Primary School Examination (PSE) exam. | 43.6% (2012) Source and measurement[2] |
| | | | | Proportion of in-service primary education teachers in Belize with an overall grade of B or higher on the PSE exam. | 69.0% (2012) Source and measurement[2] |
| Strengthen governance throughout the sector with emphasis on increased student achievement | | | Improved monitoring of education quality | Proportion of teachers who report that they are appraised by their principal. | 34.5% (2012) Source and measurement [3] |
| | | | | Proportion of school supervision reports that are made public on the website of the Ministry of Education and Youth | 0% (2013) Source and measurement[3] |

[1] Unless otherwise indicated, baseline indicators were derived from the diagnostic studies and sector notes referred to in the electronic links. The Bank will monitor progress on baselines and will measure them at least once at end of the Country Strategy (CS) period.

[2] The PSE was applied to a nationally representative sample of teachers to establish the baseline (Source: Ministry of Education and IDB). The maximum score possible is an A; the minimum is an F. In-service teachers are teachers who are currently contracted to teach in primary classrooms. Prospective teachers are those who are enrolled in their last year of training at a teacher training institute. The PSE will be applied again at the beginning and end of any teacher training project(s) approved for the sector.

[3] The Teacher and Learning International Survey (TALIS) questionnaire was applied to a nationally representative sample of teachers to establish the baseline (Source: Ministry of Education and IDB). The TALIS will be applied again at the beginning and end of any project(s) focused on education sector governance approved during the strategy period.

| Country Development Goals | IDB Priority Sector | IDB Strategic Objectives | Expected Results of the Strategy | Indicators | Baseline Values |
|---|---|---|---|---|---|
| Improve tourism value added and sustainability | Tourism | Increase overnight visitor demand and expenditures in a sustainable manner | Diversification of tourism products in emerging destinations[4] | % of overnight visitors in emerging destinations / total overnight visitors[5] | 12% (2012)<br>Source: Belize Tourism Board (BTB)<br>Measurement: Annual |
| | | | Increase in total overnight visitor demand and expenditures | Total overnight visitor expenditures | US$276 million (2012)<br>Source: BTB<br>Measurement: Annual |
| | | | Improved solid waste management in tourism areas | % of tourist destinations with access to sanitary landfills[6] | 28%<br>Source: Solid Waste Management Authority (SWaMA)<br>Measurement: Annual |
| | | Improve tourism sector stakeholder[7] coordination and quality management | Tourism quality management system and certification implemented[8] | % of licensed tourist accommodations certified (including climate resilience standards) | 35% (2012)<br>Source: BTB<br>Measurement: Annual |

[4] The National Sustainable Tourism Master Plan (NSTMP) for Belize 2030 divides Belize in seven tourist destinations (Western Belize, Central Belize, Northern Belize, Northern Islands, Southeastern Coast, Southern Belize, and Belize Reef). The Southeastern Coast, Southern Belize and Northern Belize are considered as emerging destinations.
[5] Based on national average length of stay (ALOS) (average 2012 = 7 nights), measured on a yearly basis by the Belize Tourism Board (BTB).
[6] As stated above, the NSTMP divides Belize into seven tourist destinations. As at December 2013, two have access to sanitary landfills (Western Belize and Central Belize).
[7] Key stakeholders include: public sector: ministries in charge of tourism, trade, sustainable development, works and transport, and finance and economic development, and local governments; private sector: tourism operator, hotel and industry associations; and NGOs: Association of Protected Areas Management Organization (APAMO) and Belize Audubon Society (BAS).
[8] Based on agreed national accommodation quality standard classification system and certification guidelines (to be defined in 2014).

| Country Development Goals | IDB Priority Sector | IDB Strategic Objectives | Expected Results of the Strategy | Indicators | Baseline Values |
|---|---|---|---|---|---|
| Improve ease of transport of goods and people | Transport | Improve road infrastructure to facilitate trade and integration and access to emerging tourist destinations | Rehabilitated/upgraded[9] road infrastructure including climate resilience and road safety standards | % of major highways rehabilitated/upgraded over total length of the highway network[10] | 0% (2013)<br>Source: Ministry of Works and Transport (MOWT)<br>Measurement: once during CS period - to be determined based on programming timelines - and once at the end of it |
| | | | | % of secondary roads rehabilitated/upgraded over total length of the secondary road network[11] | 0% (2013)<br>Source: MOWT<br>Measurement: once during CS period - to be determined based on programming timelines - and once at the end of it. |
| Strengthen sector planning capacity | | Strengthen sector planning capacity | Medium-term Transport Master Plan | Medium-term Master Plan developed | 0 (2013)<br>Source: MOWT<br>Measurement: once during CS period - to be determined based on programming timelines - and once at the end of it |

[9] The *rehabilitation* of roads can include works such as: routine shaping and spot treatment/repair of the road surface, paving, cleaning and/or maintenance of drainage structures, vertical and horizontal alignments improvements, signaling and marking. The *upgrading* of a road can include pavement of earth roads and any other intervention that significantly modifies the level of service of a road.

[10] Some 18% (or 366 miles) of the total road network in Belize corresponds to major highways (see Transport Sector Note). The proposed intervention on the George Price Highway would correspond to around 20-30 miles or 5%-9% of the primary road network.

[11] Some 23% (or 469 miles) of the total road network in Belize corresponds to secondary roads (see Transport Sector Note). The proposed upgrading of the Caracol Road would correspond to around 30-50 miles or 6%-11% of the secondary road network.

<table>
<tr><th>Country Development Goals</th><th>IDB Priority Sector</th><th>IDB Strategic Objectives</th><th>Expected Results of the Strategy</th><th>Indicators</th><th>Baseline Values</th></tr>
<tr><td>Develop the domestic market as a springboard for exports, produce quality goods and services and expand exports</td><td rowspan="4">Trade and Taxation Policy</td><td rowspan="4">Foster export-led growth and greater trade integration by strengthening the economic efficiency[12] and simplicity of the tax system and reducing non-tax barriers</td><td>Faster growth of exports</td><td>Growth rate of non-petroleum domestic goods and services exports in constant US$ prices (all exports except petroleum and commercial free zone sales)</td><td>2.3%<br>(average annual real growth from 2000-2012)<br>Source: Central Bank of Belize Annual Reports<br>Measurement: Annual</td></tr>
<tr><td rowspan="3">Maximize government revenue generating potential while maintaining a tax regime that is equitable and a regulatory regime that encourages investment by the private sector</td><td rowspan="3">Trade taxation and non-tax barriers substantially reduced and indirect taxation system simplified and consolidated on economically efficient taxes (especially the General Sales Tax - GST)</td><td>Number of import duties applied in addition to standard import tariffs [13]</td><td>2 (2013)<br>Source: Customs Department by request.<br>Measurement: end of CS</td></tr>
<tr><td>Number of export subsidy programs brought into compliance with Belize’s commitments to World Trade Organization[14]</td><td>0 (2013)<br>Source: Ministry of Trade by request.<br>Measurement: end of CS</td></tr>
<tr><td>Ratio of revenue from GST to revenue from taxes on international trade</td><td>94.2% (2012)<br>Source: Ministry of Finance and Economic Development<br>Measurement: Annual</td></tr>
</table>

[12] Efficiency losses are caused by tax-induced alteration of relative prices, resulting in welfare losses for consumers and producers that are greater than the increased tax revenue for the government. For open economies, taxes are less inefficient if the volume, production, consumption and international trade of goods and services are less affected by tax-induced prices changes. Broad, uniform consumption taxes cause smaller distortions in relative prices than taxes on trade or on inputs for producers.

[13] As of 2013, Belize applies three types of taxes on imports: (i) a standard import duty; (ii) an “Environmental Tax” of 2% of the dutiable value of almost all goods imported from outside CARICOM; and (iii) a Revenue Replacement Duty ranging from 5-50% on 48 goods at the 4-digit level of the Harmonized System (Monge 2013). Elimination of these two additional import duties would simplify the system of import taxes (see section on Trade and Tax Policy).

[14] As of 2013, Belize has three export subsidy programs: the Export Processing Zone Program; the Fiscal Incentives Program; and the Commercial Free Zone Program. Under the rules of the WTO, Belize has the obligation to eliminate fiscal incentives that are contingent upon export performance by the end of 2015 (Monge 2013).

| IDB Strategic Objectives | Expected Strategy Results | Indicators | Baseline |
|---|---|---|---|
| Strengthening of fiduciary country systems | Strengthening the technical capacity of the Auditor General's Office through the implementation of international standards promoted by the International Organization of Supreme Audit Institutions (INTOSAI) | Number of comprehensive Audit Manuals developed based on INTOSAI standards for Supreme Audit Institutions | No comprehensive audit manual developed based on international standards. |
| | The country's budget subsystem is compliant with international standards defined by the IMF | % of line ministries are using a programmatic approach to budgeting | 0% |
| Use of fiduciary country systems | Use of the accounting and reporting subsystems | % of loan portfolio with sovereign guarantee using the accounting and reporting subsystem | 0 % of loan portfolio with sovereign guarantee using the accounting and reporting subsystem |

# I. COUNTRY CONTEXT

1.1 Belize has the second smallest population of IDB borrower countries and, at only US$1.6 billion, the smallest economy. The small size of the domestic market increases the importance of effective trade integration.[1] Low population density prevents agglomeration and scale economies, and makes the provision of infrastructure inherently expensive in per capita terms. The country has high vulnerability to hurricanes, tropical storms and flooding due to its extensive coastline topography and the acute exposure of its major city.[2] Climate change also poses significant risks given the low elevation of much of Belize's land area, the concentration of population in coastal areas, and the reliance of the economy on natural resources.

1.2 Development progress has slowed in the last decade. Real GDP growth averaged 3.1% from 2004-2012. This was barely ahead of the 2.65% annual growth in the country's population,[3] with the result that GDP per capita (at US$4,706) has remained broadly unchanged in real terms since 2004. In a context of stagnant living standards, the poverty rate reached 41% in 2009[4] and progress on social indicators has been mixed. Belize is likely to achieve the Millennium Development Goal (MDG) targets related to combatting disease, child immunization, and maternal health[5], but unlikely to achieve those related to poverty, access to education, and gender equality in politics and employment. In addition, violence and crime have deteriorated in recent years, reaching 42 homicides per 100,000 citizens in 2012.

1.3 Belize's assets, notably its abundant land and rich natural resources, provide it with significant potential for economic growth. The biggest potential appears to be in tourism and agriculture, which remain the leading productive sectors in the economy, accounting for 40% and 29% of exports of goods and services.[6] However, in order to tap that potential and accelerate growth, Belize will need to enact significant policy reforms to lessen impediments to exports and carefully prioritize public investments, especially to remove transport bottlenecks to these sectors. An update of the growth diagnostic[7] finds that the binding constraints on economic growth are: (i) distortions to incentives and high costs for producers, particularly exporters, created by high and uneven tariff and non-tariff barriers to trade and associated tax policy distortions;[8] and (ii) the high cost of

[1] Domestic exports and imports of goods and services amounted to 101% of GDP in 2012.
[2] Examples are flooding in 2008 and Hurricane Richard in 2010.
[3] Natural population growth is supplemented by significant informal immigration from neighboring countries.
[4] Government of Belize: Country Poverty Assessment, 2010. This was up from 34% in 2002 and is the latest figure available. Although efforts were made to ensure methodological comparability between the two poverty assessments, 2009 likely represented the point of highest poverty over the last decade due to the economic recession in that year, floods in 2008 that caused heavy crop losses in agricultural districts, and the rise in international food prices in 2008. Real per capita income in 2009 was 3.9% lower than in 2002 (by 2012 it was 6.8% higher than 2002).
[5] According to The Belize Scorecard and Outlook Report 2010, UNDP and 2012 update: Maternal mortality was zero in 2010 and 2011, child immunization against measles increased from 69% in 1992 to 97% in 2009, and the incidence of malaria decreased from 49 per 1,000 persons in 1994 to 1.7 in 2008.
[6] Top export products are tourism services, petroleum, citrus, sugar, bananas and marine products.
[7] IDB (2013), "Rekindling Economic Growth in Belize" (electronic link).
[8] Tax rates were considered the most important obstacle in the World Bank's 2010 Enterprise Survey.

finance (despite a four percentage point decline in lending interest rates in the last three years)[9]. In addition, transportation is an emerging constraint, with poor road networks and inefficient ports compounding the problems for trade and hampering effective integration with neighboring markets in Central America and Mexico. More generally, the adequate provision of transport and other basic infrastructure will be important for effective implementation of the country's National Sustainable Tourism Master Plan, upon which acceleration of overall GDP growth depends.[10]

1.4 Belize faces the challenge of maintaining fiscal sustainability. The country completed two restructurings of external commercial debt in 2007 and 2013. Public and publicly-guaranteed debt was equivalent to 71% of GDP at May 31, 2013. Moreover, the amount and timing of compensation payments for the nationalizations of the major telecommunications company in 2009 and the electricity distribution company in 2011 remain to be determined and could add between 6% and 30% of GDP to the public debt. The March 2013 restructuring of external commercial debt (the superbond) has lowered average interest rates on public debt, but fiscal sustainability will require sustained fiscal discipline (Annex II).

1.5 Over the medium and long term, the greatest direct contribution to fiscal consolidation will have to come from the expenditure side.[11] This implies a need for more efficient public services as well as effective control over the biggest part of discretionary spending – the government wage bill and pension expenditure.[12] In terms of the efficiency of public services, no sector is more important than education, where the gap between spending and development results is acute.[13] Public spending on education has grown to 7% of GDP and now accounts for one-quarter of the national budget (excluding interest payments), yet school attendance in Belize is among the lowest in the Latin American and Caribbean region, and completion rates and exam performance indicate significant problems with education quality.[14] Gaps in access and quality of education are also considered to be contributory factors to poverty and growing problems of crime. [15]

1.6 The country's economic dependence on its rich yet fragile terrestrial and marine ecosystems strengthens the importance of sound environmental management and ensuring that economic growth is environmentally sustainable. This is particularly

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[9] Weighted average lending interest rates on new loans declined from 14.4% at end-2010 to 10.1% in May 2013 (Central Bank of Belize: Monthly Economic Report May 2013).

[10] IDB (2013), "Rekindling Economic Growth in Belize", op. cit..

[11] The tax burden is already relatively high for Belize's level of income (21.3% of GDP in 2012) and the greatest contribution of tax policy reform to fiscal sustainability may be indirect, via increased economic growth.

[12]Since 1999 wage and salary expenditures have fluctuated around 9% or 10% of GDP and the almost uninterrupted growth of both government employment and average salaries has historically played an important role in causing fiscal pressure. Public expenditure on pensions averaged 1.7% of GDP between 2005 and 2012. Actuarial analysis suggests that public pension schemes are not sustainable under current parameters. See: Larraín, G. and J. Rodriguez (2011) "The Pension System of Belize: Assessment and Policy Options", Technical Note No. IDB-TN-418, IDB, Washington, D.C.

[13] Belize's education sector is rated the third least efficient of 23 LAC countries in Afonso, A., Romero, A., Monsalve, E. 2013. "Public Sector Efficiency: Evidence for Latin America",Discussion Paper 279. IDB: Washington, D.C..

[14] IDB (2013) Education Sector Note (electronic link).

[15] The level of education of the household head is closely associated with the likelihood of a household being poor (around half of households where the head did not complete primary school are poor compared with under 15% of those with some secondary or tertiary education), Government of Belize: Country Poverty Assessment, 2010.

important in the tourism sector, where plans for growth in visitor numbers must be accommodated in an environmentally sustainable manner.

1.7 In addition to the challenges posed by a small domestic market and low population density, Belize's small size places constraints on its administrative capacity, including its capacity to implement development programs and absorb development assistance.[16] This is a cross-cutting challenge and requires both careful planning to align development interventions with existing absorptive capacity, and simultaneous efforts to increase such capacity over time.

## II. THE IDB IN BELIZE

2.1 The IDB is an important development partner for Belize. As the only multilateral agency with a resident office in the country, it is a valued source of technical assistance across a number of sectors, providing both sector knowledge and much needed hands-on project management support. It is also a leading source of analytical work on Belize.[17] In financial terms, given the importance of commercial and official bilateral debt in total public sector debt, the IDB accounts for just 12% of total external debt and 10% of the country's total public sector debt.[18] From 2008-2012, annual IDB disbursements averaged 0.6% of GDP, 2.1% of total government spending and 14.5% of capital spending. In terms of multilateral debt, the Caribbean Development Bank (CDB) and the IDB are the largest creditors, holding 43.4% and 43.1% respectively.[19]

2.2 The 2008-2012 country strategy focused on four country development goals: ensuring sound fiscal management and public sector transparency; creating the conditions for and restoring sustainable, private sector-led growth; improving human resource development and social protection; and rehabilitating road infrastructure. The strategy moreover specified seven strategic IDB objectives to support these goals and guide programming: (i) strengthen the institutional framework for fiscal management; (ii) reduce fiscal pressures on domestic interest rates and improve access to credit; (iii) consolidate and improve land management services; (iv) strengthen the capacity for sector planning and reduce infrastructure bottlenecks; (v) improve quality and coverage of health and education, especially in the poorest districts; (vi) improve efficiency of social protection programs; and (vii) rehabilitate road infrastructure damaged by floods.[20]

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[16] As of 2011, total government employment was less than 10,000, including teachers, health sector workers, and police.

[17] For example, "Towards a Sustainable and Efficient State: The Development Agenda of Belize", Dougal Martin, Osmel Manzano, editors. IDB, Washington, D.C. 2010. For more recent studies, see electronic links.

[18] This includes domestic (16%) and external debt (84% total, including commercial 46%, bilateral 15% and multilateral debt 23%).

[19] Others include the World Bank (4%), OPEC Fund for International Development (OFID) (4%) and the Central American Bank for Economic Integration (CABEI) (0.2%). EU is the leading provider of grants to Belize, and Venezuela and Taipei China are important bilateral donors. Use of the phrase "Taipei China" does not in any way reflect a position by the Bank or any of its member countries regarding issues of national sovereignty or diplomatic recognition.

[20] A citizen security objective was added during the country strategy period owing to a specific government request; a related investment operation is currently underway.

2.3 Results so far include: (i) stronger legal and planning frameworks for fiscal sustainability; (ii) better access to trade finance and stronger capacity of credit unions to provide financing for micro-enterprises; (iii) land tenure clarification in urban areas; (iv) improved capacity for policy and destination planning in the tourism sector and better infrastructure in four major tourist destinations; as well as lower environmental risks associated with solid waste; (v) increased access to primary healthcare in the poorest regions; more equitable financing of secondary education; and stronger mechanisms in place for licensing, promotion and transfer of teachers; (vi) improved social protection information and beneficiary targeting systems; and (vii) restoration of critical road infrastructure damaged by flooding during the 2008 hurricane season.[21]

2.4 The active sovereign guarantee (SG) loan portfolio as of October 1, 2013 has an average age of 3.6 years and includes seven loans for US$53.9 million, of which US$25.4 million (47%) remains undisbursed. Three of the seven loans are expected to exit the portfolio within the next twelve months and the remaining undisbursed balance on the existing portfolio is projected to reach zero by the end of 2015.[22] The active technical cooperation (TC) portfolio amounts to US$5.9 million. Belize also benefits from technical assistance and investment grants financed through regional projects, including the Mesoamerica 2015 Health Initiative and Mesoamerica transport projects, the Caribbean Regional Fund for Wastewater Management (CReW), and funding for the Caribbean Community Climate Change Center (CCCCC). The active non-sovereign guaranteed (NSG) portfolio includes a US$1 million financing line under the Trade Facilitation Finance Program, and US$2.5 million in programs financed by the Multilateral Investment Fund (MIF). Technical assistance to the private sector is also provided through Compete Caribbean.[23]

2.5 Lessons learned during the strategy period include the need to: (i) match project design to institutional capacities in Belize, avoiding overly complex designs where feasible;[24] (ii) ensure greater execution/disbursement readiness at the time of approval/eligibility, avoiding delayed decision-making and lengthy consultation processes during the

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[21] For more information on results, see "Belize Country Strategy (2008-2012) Results to Date" (electronic link). During the 2008-2012 strategy period, the IDB approved nine SG loans for US$72 million, 14 TCs for US$7 million, and two investment grants for US$6.3 million. Since 2008 the Bank has moreover approved a US$1 million NSG financing line under the Trade Facilitation Finance Program, two MIF grants totaling US$1.5 million, and US$982,000 in combined loan/grant financing under the Social Entrepreneurship Program (SEP). From 2008-2012, net loan flows from the IDB to Belize averaged US$4.2 million a year. Belize also benefited from over US$800,000 in Compete Caribbean financing, as well as technical assistance from regional projects in the areas of trade, disaster risk management and climate change.

[22] There were no new loan approvals for Belize in 2012-2013. Several of the projects currently underway suffered some delays in their start-up, but are now progressing satisfactorily. C&D funded training activities in project and fiduciary management and more results-based portfolio monitoring have strengthened execution capacity in Belize.

[23] The MIF is providing support in the areas of access to finance (support to the credit union sector, and micro insurance) and agricultural value chains (cacao), particularly with a view to promoting export growth. Compete Caribbean is supporting capacity building for micro and small businesses, export development in the services and aquaculture sectors and improved public-private sector coordination through the newly established Economic Development Council (EDC). For more detailed information on the current portfolio, see "Portfolio Report" (electronic link).

[24] Complex designs are those that include numerous or complicated procurement processes for which there is a shortage of local expertise, or execution arrangements involving coordination among several ministries and agencies. Where more complex designs are warranted for purposes of maximizing development outcome, execution arrangements and schedules must reflect the additional anticipated implementation burden.

execution phase;[25] and (iii) recognize and, through continued active Bank support, mitigate and reduce constraints in execution capacity, particularly in procurement, among executing agencies in Belize.

# III. THE BANK'S STRATEGIC PRIORITIES FOR 2013-2017

3.1 Belize's ability to reduce poverty and increase the welfare of its population depends on its capacity to achieve higher levels of economic growth while ensuring macroeconomic sustainability and the effective use of scarce public resources. These goals are mutually re-enforcing. The proposed 2013-2017 Country Strategy thus aims to support the Government of Belize in addressing the challenges to both public expenditure efficiency and effectiveness, with an emphasis on education spending, and private sector development, where the focus will be on improving the conditions for sustainable, export-led growth. Priority areas include: (i) education; (ii) tourism, (iii) transport and (iv) trade and tax policy.[26] These areas were selected via country dialogue and because they were identified as key development challenges or constraints to growth, as well as being areas where there is a possibility to build on past interventions, execution capacity is good, and there is potential for coordination and co-financing with other donors.[27]

## A. Education

3.2 The government's strong commitment to education is evidenced by high public spending in the sector. Education spending, distributed among both public and subsidized private schools, accounts for around 25% of the government's non-interest spending and therefore significantly influences fiscal trends. Yet, education outcomes are poor across all levels of education. School attendance is among the lowest in the region; completion rates in both primary and secondary education are far below the LAC average; and student performance on primary and secondary exams is poor.[28] Moreover, inequities in the sector perpetuate inequality, producing lower learning and completion rates among students from the lowest socio-economic group. The main reasons for these poor

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[25] Execution readiness means avoiding situations where project execution is delayed because issues that could have been addressed prior to project approval or eligibility are left unresolved (e.g. land acquisition and other legal issues; selection of target site or population for pilot interventions; or public consultation processes regarding investments).

[26] The NSG windows will support tourism, as well as the areas currently addressed in the portfolio (access to finance, SMEs and export development), in coordination with CMF which oversees the Compete Caribbean program.

[27] Sectors not chosen as priorities in the new strategy but which form part of the current loan portfolio in execution include agriculture, citizen security and land management (in addition, health, social protection and disaster risk management form part of the existing TC portfolio). The reasons for not including them in the new strategy are related to one or more of the following: limited absorptive or execution capacity in relevant executing agencies (current loans in execution in agriculture and citizen security), leadership of other donors in the sector (e.g. World Bank support for social protection), not a binding constraint on growth, addressed through regional programs or treated cross-sectorally (e.g. disaster risk management), or shifting government priorities.

[28] Household surveys indicate a recent decline in primary school attendance (from 95% in 1999 to 92% in 2009). At the secondary level, only 45% of the age-group attends school, far below the 80% regional average. Fewer than half (44%) of standard six (eighth grade) students who took the national primary school examination (PSE) in 2011 obtained an overall grade of satisfactory or above. At the secondary level, only half of Caribbean Secondary Education Certificate test takers passed the math exam. See IDB (2013) Education Sector Note for these and other education sector data.

outcomes, in a context of relatively high spending, are: (i) the absence of an effective quality assurance system that sets specific goals for all actors and makes them responsible for achieving them;[29] (ii) low teaching quality, with gaps in both content and pedagogical skills among a large group of inadequately trained teachers;[30] and (iii) inefficient spending, compounding inequalities in access.[31]

3.3 Mindful of these challenges, the GOB in 2012 approved a new national education strategy covering the period 2011-2016 that outlines policy initiatives and establishes targets to: (i) increase equitable access to education from pre-primary through tertiary education; (ii) improve quality and relevance of education at all levels; and (iii) strengthen governance throughout the sector.[32]

3.4 The Bank's focus in this sector will be on supporting the national education strategy in the areas of governance and quality, with the overall aim of improving educational outcomes relative to investment in the sector.[33] The Bank will help strengthen governance by supporting the design and implementation of a quality assurance system based on clear standards for student learning and school management, both of which will be used as the basis for annual assessments of school performance.[34] With respect to quality of education, the focus will be on teacher quality. The aim is to support improvements in the qualifications of both in-service and future teachers, by establishing national teacher education and accountability standards, creating a national system for testing teacher content and pedagogical skills, and developing a system for monetary and non-monetary teacher incentives.

3.5 The Bank will moreover continue to support efforts initiated during the previous strategy to improve equitable access to secondary education through output- rather than input-based resource allocation and full implementation of the secondary school financing reform. While the main focus during the next strategy period will be on primary and secondary schools, Bank support could also extend to governance and quality initiatives in vocational and tertiary education.

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[29] Compared to other countries, Belize has low levels of accountability built into the education system. Schools are not accountable for how resources are used and there are no consequences for underperformance. See Arcia, G. 2012. "Institutional Analysis of the Education Sector in Belize". Unpublished Consultancy Report, IDB. Washington D.C.

[30] The proportions of trained teachers at the primary (44%) and secondary levels (30%) are among the lowest in the region. The average scores of in-service teachers on the CSEC and PSE exams are also low (B).

[31] Arcia, G. 2012a. "Public Spending in Education in Belize: Implications for the Financing of Teacher Training." Unpublished Consultancy Report, IDB. Washington D.C. See also IDB (2013) Education Sector Note.

[32] *Improving Access, Quality and Governance of Education in Belize*, Education Sector Strategy (2011-2016).

[33] This approach is in line with the need to address current inefficiencies in the system before expanding it, and builds on past IDB interventions in the sector, which have focused on education quality and governance, including: (i) the creation of the National Teaching Services Commission to improve oversight over teacher hiring, dismissal and professional development; (ii) a secondary education financing reform to strengthen school incentives, guarantee equity, and ensure that students have equal access to a sufficiently broad and relevant curriculum; (iii) development of a national teacher training and professional development strategy; and (iv) piloting of new teacher training techniques.

[34] This will include the creation of an integrated Education Management Information System to enable policy planning and monitoring of student achievement, school resource use and performance, as well as mechanisms for monitoring the quality of services provided by teacher training institutions.

3.6 Risks to the proposed strategy in this sector include: (i) capacity constraints at central and school level to manage the governance reforms effectively; (ii) any reforms affecting teachers may be met with opposition from the teaching force and the teachers union; and (iii) school management authorities and teacher training institutes may resist measures that seek to hold them accountable for the services they deliver. With respect to the first of these risks, the Ministry of Education, Youth and Sports has demonstrated its commitment and ability to deliver in relation to previous Bank operations[35]; school level capacity will be directly targeted by Bank interventions. With respect to the second and third risks, the successful recent launch of the controversial National Teaching Services Commission and secondary education financing reform shows that the government has the capacity to manage the political pressures related to teachers and school management authorities. As was the case with these previous reforms, an effective communication strategy and public information campaign would need to accompany the interventions.

## B. Tourism

3.7 Tourism is still a young industry in Belize but after three decades of rapid growth, direct tourism expenditure now accounts for 12.5% of GDP and the industry's overall contribution to GDP is estimated at 32%.[36] Tourism is the country's biggest export and foreign exchange earner and a major employer; its performance is therefore critical to economic and social development.[37] While cruise ship arrivals surpass those in the overnight sector by a margin of 3:1, the overnight tourism sector accounts for 80% of tourism expenditure. Belize is strong in eco-tourism, adventure and cultural tourism and despite its small size, has high potential to further develop its tourism product. Its abundant natural and cultural assets provide the foundation for the industry's growth and a competitive advantage vis-à-vis other destinations.

3.8 The sector faces a number of challenges to its continued and sustainable growth. Prominent among these is the concentration of tourism demand and activity in the sun and beach segment and in a small number of (mainly coastal) destinations. This is the result of both problems of access to alternative sites (poor road conditions hamper access to tourism attractions in the country's interior)[38] and insufficient product development in existing and emerging tourist destinations, limiting the potential for growth in average length of stay of international visitors.[39] There is also a high concentration in the low-end lodging sub-sector,[40] which, coupled with weak compliance with and/or enforcement of global industry standards, constrains the ability to increase average spending per tourist. Other challenges affecting the industry's global competitiveness include a discriminatory

[35] BL-L1004; BL-T1024 and BL-T1049.

[36] IDB (2013) Tourism Sector Note (electronic link) and World Tourism and Travel Council (WTTC), 2012. Data represents direct value added as well as induced and indirect impact. Belize does not yet have a tourism satellite account.

[37] Tourism generates, directly, around 11.3% of total employment and indirectly, 28%. On direct versus indirect job creation in tourism, see International Labor Organization, "Reducing Poverty through Tourism", Geneva 2008.

[38] See section below on the transport sector.

[39] These problems also hamper the development of domestic travel, which could help mitigate tourism seasonality - a challenge in terms of destination capacity management, employment quality and return on investment. Most international arrivals occur from December to March, resulting in occupancy rates of below 45% on an annual basis.

[40] Although Belize hosts a number of high-end resorts, nearly half of the rated accommodations are 2 stars or below and around 90% of hotels consist of 20 rooms or less.

incentive framework (high, distortionary and/or inequitable taxation)[41], high cost of utilities and shortage of skilled labor, and rising crime.

3.9 The industry's continued and sustained growth moreover depends on the preservation of Belize's natural and cultural assets in light of increased pressure on these assets from tourism itself and from numerous other sources, including inadequate collection and final disposal of solid waste in emerging tourism destinations.[42] This, and the development of a competitive, environmentally sustainable tourism industry more generally, requires effective coordination among tourism authorities and between these and a diverse number of other agencies and actors[43], yet such coordination is still incipient. Moreover, many of Belize's natural assets are highly susceptible to natural disasters and climate change, emphasizing the need to increase the sector's resilience to such impacts.

3.10 To address these challenges, the government has developed a National Sustainable Tourism Masterplan to guide the sector's development over the next 20 years. Approved by Cabinet in 2012, the plan's implementation is now a priority for the authorities. The plan establishes ambitious targets for the industry's growth and diversification towards high value cultural and nature-based tourism, as well as specific priority actions to achieve these goals under five core programs: (i) governance; (ii) sustainability and quality assurance; (iii) infrastructure for destination development; (iv) marketing and (v) product development.

3.11 Building on past interventions[44], the Bank's focus in this sector will be to support efforts to increase overnight visitor demand and expenditure in a socially and environmentally sustainable manner, through: (i) diversification of tourism products and destinations, and (ii) improved sector management. With regard to the former, the Bank will support the development of cultural and heritage tourism products in existing and new destinations. It will also support infrastructure development to increase accessibility (through improvements to the road network) and improve solid waste management in and around emerging tourism areas[45]. With regard to sector management, the emphasis will be on strengthening tourism governance and institutions, by creating mechanisms for effective destination management and product development and improved inter-agency and public-private sector coordination;[46] implementing an integrated tourism quality management system and certification (including vocational training); and promoting green practices in the industry, for example through energy efficiency programs. The Bank's approach is

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[41] See section on trade and tax policy below.
[42] See IDB (2013) Sector Note on Solid Waste (electronic link).
[43] Including, for example, transport, health and education authorities, environment agencies, water and sanitation authorities and those responsible for land management, as well as the private sector and civil society organizations.
[44] The IDB has supported the industry's growth for over 15 years. Among other things, the IDB helped finance extensive excavation and conservation work at several major Maya heritage sites, as well as transport links to these sites. During the last country strategy, it supported the development of the Masterplan as well as planning and infrastructure upgrades in four major tourism destinations. Bank programs in the solid waste sector moreover contributed to improved waste collection and treatment in the country's western corridor, host to some of the major tourist destinations.
[45] See transport section below and IDB (2013) Sector Note on Solid Waste.
[46] Tourism authorities have expressed interest in receiving technical assistance in design and management of public-private partnerships and in pursuing such partnerships more actively (see Tourism Sector Note par. 6.12). The Bank could provide such support either via SG or NSG (MIF) technical assistance.

closely aligned with the objectives of the National Tourism Masterplan in the areas of governance, sustainability and quality assurance, infrastructure and product development. Belize would benefit from tourism diversification and the development of higher value-added tourism products and destinations given their larger economic multiplier effects. The Bank could support the country in attaining such diversification and developing such products, which could be supported through the Bank's NSG windows to the extent they meet the applicable eligibility criteria.

3.12 The difficulty of coordinating multiple public entities and private actors in the development and execution of specific interventions could delay the proposed strategy in this sector. This risk will be mitigated by the lessons learned from the Bank's previous interventions, as well as direct assistance to the Ministry of Tourism and Culture in strengthening its coordination capacity. Another risk concerns the sustainability of investments. In this regard, the Bank will promote activities to strengthen environmental management, disaster risk management and climate change resilience in all areas of support to the sector through continued technical assistance.

## C. Transport

3.13 Despite significant public investment in the transport sector over the last two decades, only 20% of the road network is paved, and access to some key tourist attractions (including Caracol, one of Belize's most important Mayan ruins) is hampered by very poor road conditions.[47] The existing network of roads and bridges on Belize's four main highways requires upgrading to accommodate current and future levels of traffic and satisfy the minimum highway standards defined by government. The situation with the George Price Highway, the main corridor to Guatemala, is especially critical given relatively rapid population growth in the Cayo district and booming trade with Guatemala since the implementation of a partial scope trade agreement in 2010. Maintenance levels are insufficient, causing declining road quality and recurrent, costly rehabilitation projects – a trend that will likely intensify given the country's high exposure to the effects of natural disasters and, increasingly, climate change. The poor network quality affects the efficiency of public transport, which also suffers from poor regulation and oversight.[48] Road safety is a major concern.[49] Problems in port infrastructure and services and, to a lesser extent, in air transport, add to the challenges of connectivity between production and consumption centers, both internally and across borders.[50]

3.14 Sector planning has traditionally been hampered by the dispersion of responsibilities across several ministries. Although the recent consolidation of such responsibilities in one ministry should help coordination, institutional capacity for the transport sector is

[47] IDB (2013) Transport Sector Note (electronic link). Such conditions also affect other industries. High internal freight costs increase agriculture production costs and limit opportunities for intra- and inter-regional commercial integration.

[48] The current system does not provide sufficient accessibility and mobility, is inefficient and results in high transport costs. See IDB (2013) Transport Sector Note.

[49] Belize has one of the highest road fatality rates in the region, well above the LAC average. See Transport Sector Note.

[50] Ports are constrained by the low maximum draught, poor physical infrastructure in the form of piers and cranes, lack of cold storage capacity, and operational inefficiencies; the biggest of the country's three ports is currently in receivership. Air transport infrastructure is less of a concern, but adherence to international standards in the municipal airports and domestic air travel would benefit the overnight tourism sector. See Transport Sector Note.

still constrained by the absence of a national transportation policy, a shortage of technical staff, and insufficient and outdated statistics, which hamper effective planning.[51]

3.15 The Government's Medium-Term Development Strategy (2010-2013) emphasizes the importance of an effective road and transportation network for economic development and the need for a National Transportation Strategy to strengthen governance, improve institutional capacity for managing the sector, and facilitate prioritization and multiyear planning of investments; it also calls for continued public investment, particularly in the road network. Belize's Aid for Trade Strategy prioritizes investment in road and bridge infrastructure to support trade, while the National Sustainable Tourism Masterplan calls for improved road access to tourism sites to boost growth in the sector.

3.16 The Bank's focus in this sector will be to strengthen sector planning and support the sector's contribution to trade and tourism development through: (i) support for the development of a National Transportation Masterplan that defines the main challenges in roads, ports, air travel and transit systems and sets out priority actions for improving the country's overall transportation system and its integration with regional transport links; and (ii) expanding or rehabilitating the existing road network with a focus on those roads that foster trade and integration or improved access to tourism sites, and with due attention to climate resilience and road safety standards.

3.17 Risks that could affect achievement of the IDB's objectives in the sector include: (i) delays in government adoption and/or implementation of a transport masterplan, which could lead to delays in implementing sector reforms and a continuation of piecemeal investment decisions; this risk will be mitigated through extensive consultations and close coordination with relevant government entities, the public-private Economic Development Council and other development partners during the preparation phase to ensure broad support for the plan; (ii) delays in implementation of road infrastructure projects; this is mitigated by the fact that specific priority investments have already been identified by the government and the executing agency is familiar with Bank projects; and (iii) weather-related events ranging from prolonged rainy seasons to flooding and hurricanes; which can delay project implementation and affect sustainability of the investment. The sustainability risk will be mitigated by ensuring inclusion of climate resilience criteria and effective maintenance plans in the design of the investments.

## D. Trade and Tax Policy

3.18 Despite the importance of integration for Belize's small economy, significant tax and non-tax barriers impede trade and robust export-led growth. Current trade policies entail substantial import duties on and non-tariff barriers to trade and a significant dispersion of tariffs, leading to widely different effective rates of protection for different activities.[52] This distorts incentives for producers, while raising costs for competitive or potentially

[51] IDB (2013) Transport Sector Note.

[52] IDB (2013) Trade and Integration Sector Note (electronic link); Monge, E. (2013), "Trade Policy Scope and Taxation in Belize Study", IDB; and Valdes, A. and W. Foster (2013), "A Review of Agriculture in Belize", IDB.

competitive sectors,[53] creating an anti-export bias, and blocking the diversification into new activities.[54] The complexity of trade policy and weak trade facilitation processes also contribute to time delays in trading and raise transaction costs for producers.[55] In terms of productive activity, the end results of the above factors are a misallocation of resources and slow growth of competitive exports.[56]

3.19 Trade policies also have important knock-on effects on tax policies and administration because high trade barriers create incentives and pressures to avoid or offset them. Producers try to get around the high trade barriers by seeking duty exemptions through export processing zone and fiscal incentive programs.[57] The significant dispersion of tariff rates, fragmentation of import duties, and exemptions for some producers combine to create a complex system to administer. Similarly, higher-than-world market prices for food have led the government to relieve consumers by zero-rating and exempting General Sales Tax (a value added tax) on many articles, particularly food products, thereby narrowing its base. 44% of potential GST supplies are zero-rated, costing the government around 8% of GDP in foregone revenue on a gross basis.[58] In terms of administration, excess credits are large and growing rapidly.[59] In sum, although Belize's tax system is relatively effective in generating revenue, it does so in a manner that damages producer incentives, is inequitable and is complex for both tax payers and tax administrators.

3.20 The government's overall strategy in the areas of taxation and trade policy, as reflected in various strategic documents of varying timeframes, is to undertake business climate reforms that foster sustainable economic growth and enhance the competitiveness of Belize while at the same time ensuring sustainable public finances.[60]

3.21 The Bank will support government efforts to foster faster growth of exports of goods and services by strengthening the economic efficiency, equity and simplicity of the tax system through a reduction in the burden of trade taxation and a compensatory increased

[53] For example, it has been estimated that the combined impact of taxes on trade increases the cost of hotel renovations or expansions by nearly 40%. Rider, M. (2012) Belize Tourism Taxation Study, Sustainable Tourism Program, Belize.

[54] The share of sugar, citrus and bananas in non-petroleum domestic goods exports rose from 59%-70% from 2000-2012.

[55] The complexity of the system, weak trade facilitation processes and poor quality port and road infrastructure result in elevated costs to export a container. Belize is ranked 102th out of 185 economies in terms of trading across borders. See World Bank/IFC, Trading Across Borders Index, Doing Business Report (2013).

[56] Excluding petroleum, domestic exports of goods grew by an average of only 1.4% per year in current prices between 2000 and 2012.

[57] Belize maintains three programs providing tax concessions for exports: the Fiscal Incentives Act, the Export Processing Zone (EPZ) Act, and the Commercial Free Zone Act. The exemptions from direct and indirect taxes are considered to be overly-generous and under the rules of the World Trade Organization (WTO) Belize has the obligation to eliminate fiscal incentives that are contingent upon export performance by December 31, 2015. Sources: IDB (2013) Trade and Integration Sector Note, and Monge, E. (2013), "Trade Policy Scope and Taxation in Belize Study", IDB.

[58] IMF (2013) Belize: Tax Reform for Growth, Fairness and Sustainable Revenues, Washington, D.C.

[59] IMF idem.

[60] Horizon 2030; Medium-Term Development Strategy 2010-2013; Estimates of Revenue and Expenditure for the Fiscal Year 2013/2014; all Government of Belize, Belmopan, Belize.

reliance on more efficient[61] forms of indirect taxation, as well as by lessening non-tax barriers to trade. The main priorities will be: (i) consolidation of trade taxes into a single import duty; (ii) simplification of tariff schedules; (iii) further reductions in licensing arrangements and special tax regimes; and (iv) broadening the base of GST. The Bank will continue and deepen its existing analytical work in order to provide policy makers with analysis of policy options and likely impact. It will seek to complement these policy reform measures with support for trade and investment policy formulation and other export promotion and trade facilitation activities, mainly through technical assistance. Building on past efforts, the Bank's NSG windows will continue to provide support in this area through initiatives such as FINPYME, while the existing TFFP program will continue to support local banks that provide financing to companies engaged in trade.

3.22 Risks that could affect achievement of IDB objectives in tax and trade policy include: (i) possible lack of political support for and government adoption of the policy reforms; and (ii) opposition to parts of the reform package from certain producer or consumer groups. These risks will be mitigated by: (i) preparation and presentation of extensive analysis on the economic and fiscal benefits of the reforms and their impact on different economic sectors, consumers and government tax revenues; and (ii) preparation of a broad reform plan that will deliver net gains to as many stakeholders as possible, while retaining a coherent internal logic and remaining feasible from the standpoint of implementation.

## E. Areas for Dialogue

3.23 The Bank will continue its technical dialogue with the government on the public sector wage bill and pension systems, with the possibility to support reform in these areas.[62] The Bank also stands ready to support government efforts to contain public spending in other areas. In addition, resolution of the legal issues related to the nationalization of the electricity and telecommunication utilities could facilitate a more active Bank role in the energy and telecommunications sectors during the strategy period.[63] Belize will continue to participate in the Mesoamerica 2015 Health Initiative (targeting maternal and child health and nutrition), where initial interventions are showing encouraging results.

## F. Cross-cutting issues

3.24 The new country strategy will incorporate aspects of climate change, disaster risk management, environment, diversity and gender in those sectors where they are relevant. For example, the importance of preserving the country's main tourism asset, its natural capital, requires any interventions in the tourism sector to be guided by environmental

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[61] Efficiency losses are caused by tax-induced alteration of relative prices, resulting in welfare losses for consumers and producers that are greater than the increased tax revenue for the government. For open economies, taxes are less inefficient if the volume, production, consumption and international trade of goods and services are less affected by tax-induced price changes. Broad, uniform consumption taxes cause smaller distortions in relative prices than taxes on trade or on inputs for producers.

[62] At the government's request, the Bank has produced a number of studies on the public wage bill and pension systems (see electronic links). However, the government does not yet have concrete plans for reform in these areas.

[63] The Bank is currently funding a comprehensive mapping of Belize's energy sector to determine the potential for improved energy efficiency and renewable energy production and use. In the telecommunications sector, the Bank will continue to support diagnostic and analytical work through existing and planned regional projects.

sustainability considerations. In that same sector, as well as in education, participation of and attention to promoting and preserving the cultural values and earnings potential of the mostly poor indigenous populations in Belize is crucial. In all sector planning and infrastructural interventions, reduced vulnerability to natural disasters and greater resilience to the effects of climate change will constitute a primary objective.[64]

## IV. LENDING FRAMEWORK

4.1 The Bank is proposing two financing scenarios for sovereign guaranteed lending (Annex III). These have been designed on the basis of the government's medium-term fiscal framework and its likely financing needs.[65] The government projects gross financing needs at approximately US$80 million per year over the medium term and net financing needs at approximately US$35 million per year. Total external financing of the capital expenditure program is projected in the range of US$40-45 million per annum. The IDB would be providing approximately a quarter of external financing for the capital expenditure program, in gross terms. The government has a policy of borrowing externally only from official creditors and the IDB is one of the principal sources of development lending to Belize.[66]

4.2 The Baseline Scenario would consist of up to US$85 million concentrated in investment loans. This scenario assumes a status quo in macroeconomic policy, notably the 1% of GDP primary surplus projected for 2013/14-2015/16 in the government's medium-term fiscal framework. Bank debt sustainability analysis indicates that, on current information, a 1% of GDP primary surplus is sufficient to ensure fiscal sustainability in the medium term, although there is uncertainty over macroeconomic projections, particularly regarding the eventual cost of compensation for nationalized utilities (Annex II). Consistent with standard Bank procedures, macroeconomic sustainability will be assessed annually. Under the baseline scenario, net flows would likely be marginally positive in most years during the strategy period. The Bank's exposure to Belize would decline slightly, with IDB debt decreasing: from 43.1% of multilateral debt in 2012 to 35.9% by 2017; from 26.4% of official creditor debt to 25.4% by 2017; and from 7.3% of GDP in 2012 to 6.6% by 2017.

4.3 The High Scenario consists of the Baseline Scenario plus support for a substantial package of policy reforms to enhance growth and fiscal sustainability, for a total lending envelope of up to US$135 million. The trigger for moving from the Baseline Scenario will be the existence of conducive macroeconomic conditions as per the Bank's evaluation criteria, in which enhanced fiscal sustainability will be a key determinant. Under the high scenario the Bank would contribute more significantly to meeting

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[64] It is worth noting that given Belize's vulnerability to natural disasters and climate change and its dependence on natural-resource based industries, the environment, disaster risk management and climate change are the focus of increasing and substantial donor support, both through country-specific and regional programs. (Annex IV).

[65] Government of Belize: Summary of Budget Estimates for Fiscal Years 2010/2011to 2015/2016, page 563 of "Draft Estimates of Revenue and Expenditure for Fiscal Year 2013/2014", March 1, 2013.

[66] The CDB has a financing role comparable with the IDB and a financing envelope of US$172.9 million (equivalent to US$21.2 million per year) was approved for its country strategy for 2011-2015.

Belize's financing needs. The Bank's exposure to Belize would increase moderately, with IDB debt growing: from 43.1% to 43.6% of multilateral debt by 2017; from 26.4% to 31.9% of official creditor debt by 2017; and from 7.3% to 9.1% of GDP by 2017.

# V. STRATEGY IMPLEMENTATION

## A. Efforts to Strengthen Execution

5.1 **Client absorptive capacity**. As a small country with limited human, technical and financial resources yet many unmet development needs, Belize has struggled to balance its desire to accept technical assistance and funding from its development partners with the constraints imposed on doing so effectively by its limited absorptive capacity. Public sector officials in line ministries often oversee multiple development projects aside from their normal government duties, and executing agencies have suffered from a shortage of local expertise in procurement and other project management functions, while those tasked with aid coordination and general portfolio monitoring functions in central ministries struggle to keep up with the demands of overseeing a diverse set of operations. Recognizing these challenges, and with the support of its development partners, the government has recently embarked on efforts to strengthen aid coordination and planning efforts, while working with individual partners to strengthen execution capacities and mechanisms in line ministries. In the IDB's case, the latter has involved a comprehensive training program in project management and fiduciary capacity for executing agencies, a step-up in assistance by the Bank's country office operations team, and more regular and more results-based portfolio review meetings between the IDB and the government, led by the Ministry of Finance and Economic Development (MFED).

5.2 Experience with the IDB portfolio has shown that execution performance is mainly a function of project design and execution readiness and the implementation capacity of individual executing agencies, rather than size of the operation.[67] However, the number of operations in the portfolio at any given time does matter; it affects the MFED's oversight capacity and it can affect execution performance in line ministries when these oversee multiple operations.[68] With this in mind, the IDB and the government have agreed on a focused approach of just four priority areas and a limited number of interventions within these areas in the next strategy cycle. The IDB will meanwhile continue its efforts to support the government in *expanding* its absorptive capacity by ensuring appropriate designs and execution readiness of operations, strengthening project management capacities and country systems in Belize, and through contributions to the work of the development partner group.

5.3 **Project design and execution readiness**. The next strategy cycle should continue to favor simple project designs incorporating a realistic assessment of what can be achieved in a normal execution period (4-5 years). Efforts will be made to bring projects closer to

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[67] Indeed, the two biggest operations currently in the portfolio are those that are executing most effectively.

[68] For this reason, no new lending is foreseen in the areas of agriculture and citizen security in the next strategy period, as the focus in these areas should be to effectively execute current operations in the portfolio.

execution readiness before approval. This will involve, where possible, using TC resources to complete feasibility studies prior to project eligibility, conducting community consultation processes prior to loan approval, and ensuring that land acquisition requirements and other such issues are addressed early in the design stage or that clear timelines for their solution prior to eligibility are agreed.

5.4 **Implementation capacity**. While the above will facilitate timely start-up of operations, the Bank will continue to work with executing agencies in Belize to strengthen their capacities to avoid delays in implementation. Apart from gradually acquiring greater experience in dealing with Bank operations, existing executing agencies have received thorough training in the areas of procurement, project monitoring and financial management. The Bank will build on this acquired expertise in existing agencies, and will roll-out training to new executing agencies as they are included in new portfolio.

## B. Country Systems

5.5 In line with its strategy to expand the use of country systems and efforts to improve execution, the Bank is currently relying on the budget and treasury subsystems in Belize. During the 2013-2017 country strategy period the Bank will continue to support further strengthening of these subsystems. It will assist the government in its efforts to complete a new Chart of Accounts (COA), introduce an institutionalized programmatic approach to budgeting and implement a Corporate Performance Budgeting system. This would strengthen the country’s public financial management systems and would allow the Bank to commence the use of the accounting and reporting subsystem.

5.6 The national public procurement system in Belize is currently not prepared, nor positioned for use in Bank funded operations. Significant reform is still required in the legislative, operational and audit and oversight areas. Over the subsequent years, the Bank will continue to support Belize in its effort to implement and train on the standard bidding documents, procurement handbook and electronic portal developed with the Bank’s support in 2012. Capacity building in procurement is also planned and must go beyond executing agencies through to national officers. A comprehensive and coordinated approach to procurement reform is critical to the path and the pace of reform and modernization of procurement in Belize, and to prepare and sustain practices fit for use by the Bank. The table below summarizes the status and expectation for the use of fiduciary systems in Belize during the country strategy period.

| Use of Country Systems | Baseline 2013 | Estimated Use 2017 | Foreseen Actions |
|---|---|---|---|
| Public Financial Management System | | | |
| **Budget** | 100% | 100% | 1) Support implementation of new COA to allow program budgeting and Government Finance Statistics (GFS) compatibility.<br>2) Support automation of budget preparation through implementation of Corporate Performance Management (CPM) Budget module and programmatic approach to budgeting.<br>3) Support implementation of requisition and invoice functions in SmartStream purchasing module to promote commitment and verification controls, and the development of user manuals. |
| **Treasury** | 71% | 71% | 1) Support the government with the implementation of a cash programming system which will provide the Treasury with the ability to accurately manage its cash flow needs. |
| **Accounting and Reporting** | 0% | 40% | 1) Support the government, particularly the Central Information Technology Office (CITO), with implementation of customized Bank Reports in SmartStream for Bank operations |
| **Internal Audit** | 0% | 0% | |
| **External Control** | 0% | 0% | 1) Support Auditor General's Office to (i) identify opportunities for improvement through a comprehensive diagnostic, and, based on priorities, develop a work plan for strengthening; and (ii) develop audit manuals comprising all technical procedures and concepts. |
| Procurement System | | | |
| **Information Systems** | 0% | 0% | 1) Support the government in its development of a comprehensive master plan for reform including the establishment of a procurement policy to provide a clear methodology to guide the modernization of the National Procurement System<br>2) Assist government in the planning and execution of a training program to support roll-out of the procurement manual and documents to all relevant government staff.<br>3) Provide training and support in the use of standard bidding documents once they are approved for use by the government.<br>4) Support, if possible, implementation of a user-friendly e-portal that would provide information on procurement regulation, business opportunities, tender notices, awards of contracts, and general statistical and other information of public interest.<br>5) Provide technical support in development of procurement regulations or legislation. |
| **Individual Consultancy** | 0% | 0% | |
| **NCB partial** | 0% | 0% | |
| **NCB advanced** | 0% | 0% | |

## C. Coordination with Other Development Partners

5.7 The IDB Country Strategy with Belize has been developed with careful consideration of current and projected investments by other development partners operating in the country, with a view to focusing resources on areas where the Bank offers most value added. Given the incipient nature of donor coordination efforts in Belize, the Bank will use both formal and informal mechanisms for coordinating with the primary donors in the country (see Annex IV). The main areas where the Bank foresees working jointly or complementarily with other cooperation agencies are: (i) education, with the CDB and the EU; (ii) tourism, with the EU; (iii) transport, with the CDB, EU, World Bank, OFID, CABEI and Korea; (iv) solid waste management, with OFID; and (v) trade and tax policy, with the EU. Finally, given the vital role of Belize's natural resources in the tourism industry as well as the country's high susceptibility to disasters and the effects of climate change, the Bank foresees coordinating closely with partners providing support to the environment and climate resilience (EU, World Bank and others).

## VI. RISKS

6.1 **Macroeconomic risks.**[69] Belize's fiscal and external sustainability is vulnerable to shocks. A recession in major trading partners and tourism origin countries could impact production in the tourism and agricultural sectors. A large-scale natural disaster could cause wealth and income losses, and put pressure on the fiscal and external accounts. Domestic political pressures for higher salaries for public sector employees could lead to a deterioration in the fiscal accounts in the context of limited scope for increasing government revenues. The Bank's strategy seeks to reinforce macroeconomic sustainability by improving the chances for economic growth (particularly in the leading tourism sector), enhancing public sector efficiency and strengthening tax policy.

6.2 **Implementation Risk**: The challenges of implementing investment programs, identified in Section V, could jeopardize the achievement of the strategy's goals. To mitigate these risks, the Bank envisages the actions included in paragraphs 5.1-6, in terms of program focus and selectivity, adapting project design to local capacity, ensuring execution readiness of operations, continued training of executing units in project and results-based management, close monitoring by and support from the country office, and support to strengthening of country systems.

6.3 **Disaster Risk and Climate Risk**: The biggest risk to the achievement of country strategy goals is the occurrence of a significant natural disaster during the strategy period. Such a disaster could lead to a change in government priorities away from those envisaged in the strategy, and could put at direct risk some of the investments and expected benefits of projects. While the Bank cannot mitigate against the occurrence of a natural disaster, it has and will continue to strengthen capacity to manage disaster and climate-related risks in Belize.

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[69] As mandated in the framework of the agreement of the Ninth General Increase in Resources of the Inter-American Development Bank, macroeconomic sustainability assessments of borrowing member countries are conducted annually.

# MAIN SOCIAL AND ECONOMIC INDICATORS

| | **2008** | **2009** | **2010** | **2011** | **2012** |
|---|---|---|---|---|---|
| **Social Indicators** | | | | | |
| Population, mid-year (thousands) 1/ | 322,100 | 333,200 | 324,528 | 332,100 | 340,786 |
| Moderate poverty (% individuals) | … | 41 | … | … | … |
| Extreme poverty (% individuals) | … | 16 | … | … | … |
| Gini Coefficient | … | 0.42 | … | … | … |
| Human Development Index percentile 2/ | 49.1 | 48.6 | 48.7 | 48.7 | 48.7 |
| **Real Sector** | | | | | |
| Real GDP growth (%) | 3.9 | 0.3 | 3.9 | 2.3 | 5.3 |
| Capital formation (% of GDP) | 26.2 | 17.2 | 12.7 | 14.9 | … |
| Nominal GDP (US$ millions) | 1,370 | 1,339 | 1,398 | 1,493 | 1,604 |
| GDP per capita (US$) | 4,252 | 4,017 | 4,307 | 4,496 | 4,706 |
| **Central Government Fiscal Indicators (% of GDP)** | | | | | |
| Government revenues | 29.0 | 26.0 | 27.5 | 27.1 | 27.1 |
| Petroleum revenues | 2.0 | 0.9 | 2.4 | 2.5 | 1.6 |
| Non-interest government expenditures | 24.0 | 25.4 | 25.7 | 24.2 | 25.1 |
| Wages and salaries | 9.0 | 10.0 | 9.9 | 9.7 | 9.3 |
| Capital expenditures | 4.4 | 4.2 | 4.2 | 3.5 | 4.9 |
| **Primary surplus** | **5.0** | **0.6** | **1.8** | **2.9** | **2.0** |
| Interest expenditures | 3.8 | 3.6 | 3.4 | 3.5 | 2.9 |
| **Overall fiscal balance** | **1.1** | **-3.1** | **-1.6** | **-0.6** | **-0.9** |
| **Public and publicly guaranteed debt** | **84.2** | **87.4** | **84.5** | **79.8** | **74.0** |
| External debt | 71.6 | 75.2 | 71.1 | 66.9 | 61.8 |
| Domestic debt | 12.6 | 12.2 | 13.4 | 12.9 | 12.2 |
| **External Indicators (% of GDP except where specified)** | | | | | |
| Current account balance | -10.6 | -5.9 | -2.9 | -1.1 | -1.8 |
| Travel and tourism exports | 20.3 | 19.1 | 17.8 | 16.6 | 18.6 |
| Foreign direct investment | 12.4 | 8.1 | 7.0 | 6.4 | 12.1 |
| Net International Reserves (US$ millions) | 165 | 182 | 188 | 215 | 264 |
| **Monetary, Exchange Rate and Price Indicators** | | | | | |
| Consumer Price Inflation (annual average) | 6.4 | -1.1 | 0.9 | 1.3 | 1.3 |
| Growth of Broad Money (M2) | 13.3 | 6.4 | -0.1 | 5.3 | 11.0 |
| Exchange rate (BZ$ per US$) | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Real Effective Exchange Rate (% change; + = depreciation) | 0.5 | -4.3 | -1.3 | 11.1 | -1.8 |

**Notes:**
1/ 2008-2009 SIB, Abstract of Statistics 2012; 2010 Statistical Institute of Belize (SIB) Preliminary Census Results; 2012 average of estimated population in April and September 2012 Labor Force Surveys.
2/ Percentage of countries with a lower HDI than Belize.
**Source**: Statistical Institute of Belize, Central Bank of Belize, Country Poverty Assessment, Halcrow; UNDP.

## MACROECONOMIC CONTEXT

**Belize has a very small (US$1.6 billion) economy that is highly open to trade in goods and services, primarily with the United States.** Economic growth averaged only 2.5% per annum from 2005 to 2012, causing living standards to stagnate. Belize's two principal engines of growth -- tourism and agriculture -- have considerable potential but will require an overhaul and modernization of the microeconomic policy framework, particularly regarding trade and tax policies, as well as the provision of supporting infrastructure and other public goods in order to realize their full potential. The modest petroleum industry boosted economic growth from 2006 to 2009 but declining production since 2009 has become a drag on GDP growth.

**The dominant feature of Belize's macroeconomic policy framework is a long-standing exchange rate peg to the US dollar**, which has ensured relative stability in the most important price in the economy – the price of foreign exchange – as well as low inflation rates. The peg is backed by strong capital controls and a stock of foreign exchange reserves that increased more than threefold between the end of 2007 and mid-2013.

**In contrast to the situation with respect to macroeconomic *stability*, Belize faces important challenges with respect to macroeconomic *sustainability*, both in terms of fiscal sustainability and external sustainability**. The country is still grappling with the legacy of a rapid increase in external debt from 1998 to 2004 that resulted in restructurings of external commercial debt in 2007 and March 2013. In March 2013 the Government of Belize (GOB) completed an exchange of its sole external commercial bond (the so-called "superbond"). This exchange resulted in only a small reduction of principal -- the US$546 million 2029 superbond was replaced by a new bond of US$526 million that will mature in 2038 – but important reductions in interest rates. The bond exchange will save Belize between 1% and 2% of GDP of interest payments per annum from 2013-2017. The stock of public and publicly-guaranteed debt was equivalent to 74% of GDP at December 31, 2012, and 71% of GDP at May 31, 2013 following the incorporation of the principal reduction of the superbond.[1]

**To date, recorded public and publicly guaranteed debt has not incorporated additional government liabilities**. The economically most significant are the liabilities arising from the acquisition of majority shareholdings in Belize Telemedia Limited (BTL) – the dominant provider of telecommunications services – in 2009 and Belize Electricity Limited (BEL) -- the sole transmission and retail distributor of electricity in 2011. The former owners have challenged the legal basis for the nationalization, including the constitutionality of the nationalizations, and this legal issue will have to be resolved before the amount of compensation can be determined. If the nationalizations are determined by the courts to be constitutional and if compensation is also determined through the courts rather than through negotiations between the parties, as seems probable, the process of determining compensation could be drawn out.[2] The government

[1] This is the stock of public and publicly guaranteed debt reported by the Central Bank of Belize but excluding the 2009 special SDR allocation, consistent with the IMF's "**Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations"** SM/09/228.

[2] Cases may be ruled on by Belize's Supreme Court, then the Appeal Court and finally by the Court of Caribbean Justice (CCJ). As of September 2013, the challenge on constitutionality had passed the Supreme Court and was awaiting a ruling by the Appeals Court. Consequently, the determination of compensation may be four court rulings away. Each case (first on the constitutionality and, if deemed constitutional, secondly on the compensation)

expects that compensation is unlikely to be determined before 2015. Consequently the Bank's debt sustainability analysis (and financing scenarios) assume that the additional liabilities are incorporated into recorded public debt by the end of 2016. Expert valuation of the companies differs significantly. On a gross basis, the combined compensation would amount to over 5% of GDP at the government's advisors' valuation and around 29% of GDP at the claimants' valuation.[3] This issue introduces an important element of macroeconomic uncertainty into macroeconomic projections and debt sustainability analysis over the period of the next country strategy. The Bank's debt sustainability analysis will be updated periodically in routine analysis to incorporate changing macroeconomic conditions.

**Belize will need sustained fiscal effort, as well as faster economic growth, to reduce the level of debt to safer, more sustainable levels.** IDB debt sustainability analysis indicates that a primary surplus of 1% of GDP – as projected for 2013-2015 in the government's April 2013-March 2014 Budget – is higher than the level required to stabilize the debt-to-GDP ratio over the medium term, even if the additional liabilities are incorporated into public debt at the highest amount (compensation based on the claimants valuation) (Table 1). However, if the primary surplus remains at 1% of GDP indefinitely it would not result in a declining debt-to-GDP level after 2020 because of the step up in the coupon on the new external bond and projected increases in Libor-based interest rates on official public debt. In addition, stabilizing the debt-to-GDP ratio at its current level would leave fiscal sustainability vulnerable to adverse shocks. The IMF Staff Report for the 2013 Article IV Consultation recommended that the government gradually raise the primary surplus to 3% of GDP in order to ensure that the debt-to-GDP ratio declines to less than 60% of GDP by 2023 and less than 50% by 2025.[4]

**Table 1**

**Primary Surplus Required to Stabilize the Debt-to-GDP Ratio (% of GDP)**

| | **2014** | **2017 (following incorporation of additional liabilities)** | **2022 (following step up of interest rates** |
|---|---|---|---|
| **Without additional liabilities** | 0.00 | 0.00 | 0.48 |
| **NERA valuation** | - | 0.09 | 0.87 |
| **"Mid-price" valuation** | - | 0.39 | 1.20 |
| **Claimant valuation** | - | 0.68 | 1.52 |

Source: IDB estimates based on MOF and CBB data and information.

[3] Both the Government of Belize and former owners (claimants) undertook valuations of the shareholdings. As of April 2012, the advisors to the GOB, NERA Economic Consulting, valued BTL and BEL and accrued interest at below US$85 million whereas the claimants valued the shareholdings above US$450 million. The midpoint of the two claims is US$268 million (Government of Belize: "Belize Economic and Financial Update 2012"). In addition to the additional liabilities, the GOB faces two contingent liabilities amounting to approximately US$40 million relating to a claim stemming from a government guarantee to a private sector hospital and a claim for damages relating to the 2005 "Accommodation Agreement" for BTL. In July 2013 the Caribbean Court of Justice declined to enforce an arbitral award made by the London Court of International Arbitration in 2009.

[4] IMF (2013) Belize Staff Report for the 2013 Article IV Consultation, IMF Country Report No. 13/227.

**Belize faces significant challenges with respect to external sustainability**. Belize's net international investment position (NIIP) [its "net worth" vis-à-vis the rest of the world] was equivalent to -139% of GDP as of December 31, 2012. Although the Bank projects the NIIP to strengthen in the period 2013-2015, the NIIP would weaken thereafter if the Central Bank of Belize's (CBB) projections of a widening current account deficit materialize. Achieving a healthy growth of exports would contribute greatly to external sustainability.

**The level of non-performing loans (NPLs) in the financial system is higher in Belize than in most other Caribbean small states.**[5] However, over the last three years the GOB and CBB have taken significant steps to strengthen the regulatory and supervisory framework of the financial sector, many of which flow from recommendations in the IMF's 2011 Financial Sector Stability Assessment. Notably, the CBB tightened loan classification standards and regulation and on September 7, 2012, the National Assembly approved the Domestic Banks and Financial Institutions Act (DBFIA). The level of NPLs peaked in absolute terms and as a proportion of total loans in 2010-2011. Moreover, provisioning against NPLs rose markedly in 2011 and 2012. Consequently, NPLs *net of specific provisions* declined from a peak of 17.9% of total loans in June 2010 to 11% in March 2013.

[5] Of 14 Caribbean states, only one other state had an NPL level above 15%, three states had NPLs in the range of 10-15%, while 9 had NPLs between 5% and 10%. IMF (2013) Caribbean Small States: Challenges of High Debt and Low Growth, Washington, D.C.

## INDICATIVE LENDING FRAMEWORK

**Medium-term financing requirements**. The government's likely financing needs have been projected on the basis of the government's medium-term fiscal framework.[1] The government projects gross financing needs at approximately US$80 million per annum over the medium term and net financing needs at approximately US$35 million per annum. Total external financing of the capital expenditure program is projected in the range of US$40-45 million per annum. The government has a policy of borrowing externally only from official creditors and the IDB is one of the principal sources of development lending to Belize.[2] The lending scenarios proposed envisage the IDB investment lending accounting for 10-15% of the government's capital expenditure program and 20-30% of the external financing for the capital expenditure program.

Per Annex II, it is possible that during the period of the country strategy (2013-2017), courts will first determine that the nationalization of the two utility companies was constitutional and secondly determine the amount of compensation that should be paid to former shareholders. Under such circumstances, and in spite of any fiscal adjustment that the government might plausibly undertake, payments of compensation over a five-year period would likely imply higher financing requirements than currently contemplated in the medium-term fiscal framework. For example, if compensation is determined at the mid-point valuation and to be paid over a five-year period, annual financing requirements would likely increase by US$50-60 million for that five-year period. Such additional financing requirements would be of a liquid or budgetary financing nature rather than financing tied to investment.

**IDB lending framework.** The Bank is proposing two financing scenarios for sovereign guaranteed lending). **The Baseline Scenario would consist of up to US$85 million concentrated in investment loans**. The baseline scenario is based upon an assumption of the status quo in macroeconomic policy, notably the 1% of GDP primary surplus projected for 2013/14-2015/16 in the GoB's medium-term fiscal framework. Bank debt sustainability analysis indicates that, on current information, a 1% of GDP primary surplus is sufficient to ensure fiscal sustainability in the medium term, although there is uncertainty over macroeconomic projections, particularly regarding the eventual cost of compensation for nationalized utilities (Annex II). Consistent with standard Bank procedures, macroeconomic sustainability will be assessed annually. Under the baseline scenario, net flows would likely be marginally positive in most years during the strategy period. Based on the Bank's disbursement projections, the GoB's medium-term fiscal framework and disbursement projections of other official creditors, the Bank's exposure to Belize would decline slightly, with IDB debt decreasing: from 43.1% of multilateral debt in 2012 to 35.9% by 2017; from 26.4% of official creditor debt to 25.4% by 2017; and from 7.3% of GDP in 2012 to 6.6% by 2017.

**The High Scenario consists of the Baseline Scenario plus US$50 million support for a substantial package of policy reforms to enhance growth and fiscal sustainability, for a total lending envelope of up to US$135 million**. The trigger for moving from the Baseline Scenario will be the existence of conducive macroeconomic conditions as per the Bank's

[1] Government of Belize: Summary of Budget Estimates for Fiscal Years 2010/2011to 2015/2016, page 563 of "Draft Estimates of Revenue and Expenditure for Fiscal Year 2013/2014", March 1, 2013.
[2] The Caribbean Development Bank (CDB) has a financing role comparable with the IDB and a financing envelope of US$172.9 million (equivalent to US$21.2 million per year) was approved for its country strategy for 2011-2015.

evaluation criteria, in which enhanced fiscal sustainability will be a key determinant. Under the high scenario the Bank would contribute more significantly to meeting Belize's financing needs.[3] The Bank's exposure to Belize would increase moderately, with IDB debt growing: from 43.1% to 43.6% of multilateral debt by 2017; from 26.4% to 31.9% of official creditor debt by 2017; and from 7.3% to 9.1% of GDP by 2017.

For the purpose of projecting the Bank's exposure, the macroeconomic assumptions underlying the High Scenario are derived from the "Active Scenario" recommended by the IMF, but lagged one year:  a primary surplus of 2.5% of GDP in FY2015/2016 and a 3% of GDP primary surplus starting in FY2016/2017.[4]

[3] It is likely that additional IDB financing would simply substitute other financing (particularly domestic borrowing) rather than represent additional debt.
[4] IMF (2013) Belize Staff Report for the 2013 Article IV Consultation, IMF Country Report No. 13/227.

| Baseline Scenario (US$ million) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2013-17 |
|---|---|---|---|---|---|---|---|
| **Approvals 1/** | **0.0** | **0.0** | **35.0** | **30.0** | **20.0** | **0.0** | **85.0** |
| **Disbursements** | **12.8** | **9.4** | **12.4** | **12.7** | **8.7** | **12.9** | **56.2** |
| Existing investment loan portfolio | 12.8 | 9.4 | 12.4 | 8.4 | 0.0 | 0.0 | 30.3 |
| New investment loans | 0.0 | 0.0 | 0.0 | 4.3 | 8.7 | 12.9 | 25.9 |
| PBLs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization | -6.0 | -6.6 | -7.5 | -8.8 | -9.1 | -9.7 | -41.7 |
| **Net loan flow** | **6.8** | **2.8** | **4.9** | **3.9** | **-0.4** | **3.2** | **14.5** |
| Subscriptions | -0.3 | -0.3 | -0.4 | -0.4 | -0.4 | -0.4 | -1.9 |
| Interest payments | -1.9 | -1.8 | -1.9 | -2.0 | -2.0 | -2.0 | -9.7 |
| **Net cash flow** | **4.7** | **0.7** | **2.7** | **1.6** | **-2.8** | **0.8** | **2.9** |
| **Financing Needs** | | | | | | | |
| IDB investment lending/capital expenditures (%) | 16.2% | 12.3% | 15.9% | 15.8% | 10.3% | 14.6% | **13.8%** |
| IDB inv. lending/foreign financed-capital expenditures (%) | 27.7% | 22.2% | 28.3% | 28.1% | 18.4% | 26.0% | **24.6%** |
| **Exposure Indicators 2/** | | | | | | | |
| **Debt to IDB (US$ million)** | **116.8** | **119.7** | **124.6** | **128.5** | **128.1** | **131.3** | **126.4** |
| Debt IDB/multilateral debt (%) | 43.1% | 41.8% | 40.1% | 38.4% | 36.6% | 35.9% | **38.6%** |
| Debt IDB/official creditor debt (%) | 26.4% | 25.5% | 25.6% | 25.6% | 25.2% | 25.4% | **25.4%** |
| Debt IDB/external public debt (%) | 11.7% | 11.9% | 12.2% | 12.4% | 12.3% | 12.5% | **12.3%** |
| Debt IDB/GDP (%) | 7.3% | 7.2% | 7.1% | 7.0% | 6.7% | 6.6% | **6.9%** |
| Public debt/GDP (%) (current legal basis) | 74.0% | 70.8% | 69.8% | 68.5% | 67.2% | 66.4% | **68.6%** |
| Public debt/GDP (%) (incorporation of additional liabilities) 3/ | 74.0% | 70.8% | 69.8% | 68.5% | 83.7% | 82.9% | **75.1%** |

Source: VPC/CID projections and FIN Debt Service Projections.

1/ Indicative amounts subject to the available financial capital of the Bank and standard Bank loan approval procedures.
2/ Macroeconomic assumptions: real GDP growth 2.5% p.a.; inflation 2.0% p.a.; primary surplus 1% of GDP.

3/ Assumes additional liabilities are incorporated into public debt at midpoint valuation in 2016.

| High Scenario (US$ million) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2013-17 |
|---|---|---|---|---|---|---|---|
| **Approvals 1/** | **0.0** | **0.0** | **35.0** | **55.0** | **45.0** | **0.0** | **135.0** |
| **Disbursements** | **12.8** | **9.4** | **12.4** | **37.7** | **33.7** | **12.9** | **106.2** |
| Existing investment loan portfolio | 12.8 | 9.4 | 12.4 | 8.4 | 0.0 | 0.0 | 30.3 |
| New investment loans | 0.0 | 0.0 | 0.0 | 4.3 | 8.7 | 12.9 | 25.9 |
| PBLs | 0.0 | 0.0 | 0.0 | 25.0 | 25.0 | 0.0 | 50.0 |
| Amortization | -6.0 | -6.6 | -7.5 | -8.8 | -9.1 | -9.7 | -41.7 |
| **Net loan flow** | **6.8** | **2.8** | **4.9** | **28.9** | **24.6** | **3.2** | **64.5** |
| Subscriptions | -0.3 | -0.3 | -0.4 | -0.4 | -0.4 | -0.4 | -1.9 |
| Interest payments | -1.9 | -1.8 | -1.9 | -2.0 | -2.4 | -2.8 | -10.9 |
| **Net cash flow** | **4.7** | **0.7** | **2.7** | **26.6** | **21.8** | **0.0** | 51.8 |
| **Financing Needs** | | | | | | | |
| IDB investment lending/capital expenditures (%) | 16.2% | 12.4% | 15.9% | 15.8% | 11.5% | 14.2% | **13.9%** |
| IDB inv. lending/foreign financed-capital expenditures (%) | 27.7% | 22.2% | 28.3% | 28.1% | 20.6% | 25.3% | **24.9%** |
| **Exposure Indicators 2/** | | | | | | | |
| **Debt to IDB** | **116.8** | **119.7** | **124.6** | **153.5** | **178.1** | **181.3** | **151.4** |
| Debt IDB/multilateral debt (%) | 43.1% | 41.8% | 40.1% | 42.6% | 44.5% | 43.6% | **42.5%** |
| Debt IDB/official creditor debt (%) | 26.4% | 25.5% | 25.6% | 29.1% | 31.9% | 31.9% | **28.8%** |
| Debt IDB/external public debt (%) | 11.7% | 11.9% | 12.2% | 14.5% | 16.3% | 16.5% | **14.3%** |
| Debt IDB/GDP (%) | 7.3% | 7.2% | 7.1% | 8.4% | 9.3% | 9.1% | **8.2%** |
| Public debt/GDP (%) (current legal basis) | 74.0% | 70.8% | 69.8% | 67.4% | 64.1% | 61.2% | **66.7%** |
| Public debt/GDP (%) (incorporation of additional liabilities) 3/ | 74.0% | 70.8% | 69.8% | 67.4% | 80.5% | 77.6% | **73.2%** |

Source: VPC/CID projections and FIN Debt Service Projections.

1/ Amounts subject to the available financial capital of the Bank and standard Bank loan approval procedures.
2/ Macroeconomic assumptions: real GDP growth 2.5% p.a.; inflation 2.0% p.a.; primary surplus 1% of GDP FY2013/14 and FY2014/15; 2.5% in FY2015/16 and 3% thereafter.
3/ Assumes additional liabilities are incorporated into public debt at midpoint valuation in 2016.

## DONOR COORDINATION

Foreign financing has played an important role in Belizean government expenditure. In the last five fiscal years, total external grant and loan disbursements financed 17% of total central government spending, while loan disbursements financed over 77% of capital spending.[1]

The IDB Country Strategy with Belize has been developed with careful consideration of current and projected investments by other development partners operating in the country, with a view to focusing resources on priority areas where the Bank offers most value added. Given the incipient nature of donor coordination efforts in Belize, the Bank will use both formal and informal mechanisms for coordinating with the primary donors in the country.

The IDB has a track record of successful collaboration with several major partners in Belize and will continue to coordinate with these and other partners to leverage potential synergies and avoid duplication of efforts. Coordination with the CDB will be especially important given its position as one of the largest providers of development assistance to Belize. In particular, the Bank will coordinate with the CDB in supporting the implementation of the government's education strategy. The IDB will also seek close collaboration with the EU (the only development partner with programs in all four of the IDB's priority areas for action), particularly with respect to its trade capacity building activities in Belize.

The Bank participates in a newly established Development Partner Group and has agreed to chair the economic development sub-group, which covers the transport area.[2] Given the multitude of development partners supporting the transport sector, a high level of formal coordination among the various partners is anticipated in this area to ensure that the Bank's work to improve transport planning capacity and finance transport infrastructure projects is fully aligned with activities by other development partners, including CABEI, CDB and the World Bank.

The main areas where the Bank foresees working jointly or complementarily with other cooperation agencies are: (i) education, with the CDB and the EU; (ii) tourism, with the EU; (iii) transport, with the CDB, EU, World Bank, OFID, CABEI and Korea; (iv) solid waste management, with OFID; and (v) trade and tax policy, with the EU. Finally, given the vital role of Belize's natural resources in the tourism industry and the country's high susceptibility to disasters and the effects of climate change, the Bank foresees coordinating closely with partners providing support to the environment and climate resilience (EU, World Bank and others).

[1] IMF (2013). Country Report No. 13/227. The EU has been the largest source of aid flows to Belize over the last five years. Of the multilateral development banks, CDB and IDB have large portfolios distributed across a variety of sectors; the World Bank and CABEI have smaller portfolios concentrated in municipal development/environment and infrastructure, respectively. Venezuela and Taipei China are important bilateral donors. Both the OFID and the Kuwaiti Fund for Arab Economic Development (KFAED) have financed infrastructure projects in Belize, while the United States and United Kingdom provide grant finance mainly in the security sector.

[2] Formal coordination mechanisms among development partners in Belize began with the establishment in 2011 of a Justice and Security Coordination Group, organized by the UNDP. In 2013, a broad-based Development Partner Group was established, along with a series of thematic groups related to citizen security, economic development, human development, environment, and public administration for efficiency. While approximately 20 development partners have active programs in Belize, many of these institutions lack a physical presence in the country, a factor that has contributed to the challenges of formal donor coordination efforts in the country.

| **Sectors / Bilateral and Multilateral Institutions** | | **CABEI** | **Canada Gov.** | **CDB** | **CDF** | **EU** | **FAO** | **IDB** | **IFAD** | **IMF** | **KFAED** | **OFID** | **PAHO** | **Taipei China** | **UNICEF** | **UNDP** | **UNFPA** | **UK Gov.** | **US Gov.** | **Venezuela** | **WB/IFC** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Priority Areas for Bank Action | Education | | | ■ | | ■ | | ■ | | | | | | | | | | | | | |
| | Sustainable tourism | | | | | ■ | | ■ | | | | | | | | | | | | | |
| | Trade and tax policy | | | | | ■ | | ■ | | | | | | | | | | ■ | | | ■ |
| | Transport | ■ | | ■ | | ■ | | ■ | | | ■ | ■ | | ■ | | | | | | | ■ |
| Other Sectors | Agriculture and Rural Development | ■ | | ■ | | ■ | ■ | ■ | ■ | | | | | ■ | | | | | | ■ | ■ |
| | Environment and Natural Disasters | | ■ | ■ | | ■ | | ■ | | | | | | | | ■ | | ■ | | | ■ |
| | Energy | | | | | ■ | | | | | | | | | | | | ■ | | | |
| | Financial Markets | ■ | | ■ | ■ | | | ■ | ■ | | | | | | | | | | | ■ | ■ |
| | Health | | | ■ | | ■ | | ■ | | | | | ■ | | ■ | ■ | ■ | | ■ | | ■ |
| | Industry | | | | | | | | | | | | | | | | | | | | |
| | Private firms and SME Development | | ■ | ■ | ■ | ■ | | ■ | | | | | | | | | | ■ | | | |
| | Reform/Modernization of the State | | ■ | ■ | | ■ | | ■ | | ■ | | | | | | ■ | | | | | ■ |
| | Social Investment | | ■ | ■ | | | | ■ | | | | | | | ■ | ■ | ■ | ■ | ■ | | ■ |
| | Water and Sanitation | | | ■ | | ■ | | ■ | | | | ■ | | | | ■ | | ■ | | | ■ |
| General budget support | | | | | | | | | | | | | | ■ | | | | | | ■ | |

# DEVELOPMENT EFFECTIVENESS MATRIX

## COUNTRY STRATEGY UPDATE: DEVELOPMENT EFFECTIVENESS MATRIX

**In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluabiliy of all Bank development products.**
**The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."**

**Country Strategy: BELIZE 2013-2017**

***STRATEGIC ALIGNMENT*** *This measures two dimensions: (i) the extent to which the objectives of the strategy are consistent with the country's development challenges and with the government's priorities and plans; and (ii) use of a mix of products (financial, knowledge, technical assistance) to attain the objectives, and identification of other cooperation agencies and their areas of action*

***Consistency of strategic objectives:*** The country strategy (CS) identifies the following areas of work: (1) Education ; (2) tourism ; (3) transport ; (4) trade and tax policy. The Bank will continue its technical dialogue with the government in the following areas: (1) public sector wage bill; (2) pension systems; (3) energy and (4) telecommunication. The CS is aligned with the priorities of Government of Belize. Priority areas as well as dialogue areas were identified as a result of the dialogue between the Bank and the country.

***Mix of products and participation by other donors:*** The strategy proposes to use different Bank instruments such as sovereign-guaranteed operations, NSG operations, and technical-cooperation; it takes into consideration coordination with and interventions by other multilateral donors, such as CDB, EU,CABEI, among others.

***EFFECTIVENESS*** *(This measures whether the country strategy is likely to achieve its intended objectives, through an examination of four*

| Effectiveness dimensions | % |
|---|---|
| I. Sector diagnostics | |
| - Identifies the main problems based on empirical evidence | 100 |
| - Identifies the main beneficiaries | 100 |
| - Identifies and measures the factors that contribute to the problems identified | 100 |
| - Presents the policy framework and a sequence for Bank intervention | 100 |
| - The diagnostic corresponds to the objectives presented in the strategy | 100 |
| II. Results matrix | % |
| - The expected outcomes are clearly defined | 100 |
| - The indicators are outcome indicators and are SMART | 93 |
| - The indicators have baselines | 100 |

*All sector notes presented to support the country strategy:*

*-clearly identify the main sector problems based on empirical evidence.*
*-identify the potential beneficiaries in each area of intervention.*
*-identify or measure the factors that contribute to the problems identified.*
*-identify the policy framework and a sequence for Bank actions.*
*There is consistency between the notes and the proposed strategic objectives.*

*Results matrix: The results matrix includes 6 strategic objectives for Bank action and 15 indicators to measure progress.*

*-100% of strategic objectives clearly identify expected outcomes.*

*-93% of indicators used are outcome indicators that are SMART. 7% of indicators are output indicators.*

*- All the indicators have baselines.*

*Country Systems: With regard to fiduciary systems (financial management and procurement) assessments were conducted for all financial management sub-systems and for the procurement information system. The Bank is currently using some financial management subsystems (budget and treasury) and is not using any procurement subsystem . All financial management sub-systems (with the exception of internal audit) as well as procurement sub-systems will be strengthened during the country strategy period.*

*Lending framework: The strategy contains an analysis of the country's financing requirements and provides an estimate of the amount required from the Bank based on two scenarios for sovereign guaranteed lending.*

***RISKS.*** *This measures three dimensions: (i) identification of factors that actually do or mightaffect attainment of the proposed objectives; (ii) definition of mitigation measures; and (iii) monitoring mechanisms.*

*The strategy identifies the risks associated with Bank participation in each of the strategic sectors and identifies mitigation measures. It also discusses more general risks (macroeconomic, implementation and occurrence of significant natural disaster ) that will be monitored during the country strategy period.*

## RECOMMENDATIONS OF THE 2008-2012 COUNTRY PROGRAM EVALUATION

| CPE 2008-2012 Recommendations | Incorporation in the Country Strategy 2013-2017 |
|---|---|
| **1. Dedicate more efforts toward increasing the country's integration.** One way for the country to overcome its limitations of scale is to integrate with other countries. The natural regions to integrate with are Central America, Mexico, and the Caribbean, but integration with countries from other regions would also be possible. Integration should go beyond trade to include areas such as insurance against weather-related events, financial markets, and high-cost sectors such as specialist education and health. The country already has some integration and collaboration agreements, including in some of these areas; the Bank could help Belize identify other areas with large potential benefits and foster the development of agreements. | This recommendation is addressed via the strategy's focus on trade and tax policy, and on trade and integration-related transport interventions, both of which support the country's more effective integration into regional and global markets. It is worth noting that in terms of insurance against weather-related events, Belize is already a member of the Caribbean Catastrophe Risk Insurance Facility (CCRIF). |
| **2. Dedicate still more efforts toward reducing the country's vulnerability, understood in an ample sense.** The Bank should continue to help Belize identify key policies and infrastructure works that would reduce its vulnerability to natural disasters, including extreme weather events or climate change, and could help design the appropriate policies or finance the construction of infrastructure works. The Bank can also increase its efforts—in coordination with other actors working in the country—toward helping Belize form a comprehensive, well-coordinated social safety net. Finally, by promoting integration, the Bank could help Belize diversify its export destinations, including tourism. | The strategy will address Belize's vulnerability to natural disasters and climate change effects as a cross-cutting issue. In all sector planning and infrastructure interventions (transport, tourism, solid waste), reduced vulnerability to natural disasters and greater resilience to the effects of climate change will be a primary objective. It is worth noting that Belize receives substantial support for environment, disaster risk management and climate change adaptation from other development partners, as well as through Caribbean regional programs. |
| **3. Work within the limits of the country's absorptive capacity, in terms of institutions and human resources.** The Bank should continue to study the country's institutions, regulations, and human resources endowment to help it strengthen the weaker parts and avoid overloading them with operations. This requires close coordination with other development agencies so as to avoid a "tragedy of the commons" type of problem. It also implies being selective and prioritizing operations. | As indicated in §3.1 and 5.1, absorptive capacity was taken into account in selecting the strategy's priority areas and in determining the scope of the lending program. In addition, as outlined in §5.2-6, program development will place emphasis on matching project designs with existing capacity, and efforts will be made to expand absorptive capacity through capacity-building in project management and fiduciary matters, and careful coordination with other development partners. |

| CPE 2008-2012 Recommendations | Incorporation in the Country Strategy 2013-2017 |
|---|---|
| **4. Ensure that all Bank operations are consistent with the debt sustainability analysis performed by the CSB.** OVE reiterates this recommendation from the previous CPE, since the country's financial conditions have not improved substantially, and an increase in the financial envelope took place in these circumstances. | This recommendation was taken into account in preparing the strategy's financing scenarios. As in the case of the previous strategy, the new strategy estimates lending scenarios and include a debt sustainability analysis (DSA) following existing Bank guidelines. These scenarios are not fixed and as in the case of the previous strategy, the Bank will monitor country conditions and calibrate its financing estimates as necessary during strategy implementation. In addition, DSAs will be conducted on the country at least once a year. As customary, the DSA will be conducted on an economy-wide basis, taking into account all loans from all creditors, not on a project by project basis. The IDB accounts for less than 10% of public debt with any individual loan having minimal impact on any assessment of Belize's debt sustainability. |
| **5. Reduce the costs the Bank imposes on the country.** The Bank should try to measure how costly it is for Belize to execute Bank-financed operations and then work to reduce those costs. But even without such a measurement, the Bank can take some actions to reduce those costs: (i) improve coordination, both among IDB operations and with other development agencies (coordination among development agencies is the responsibility of the GoB, but the IDB should assist if the GoB is not able to do it—of course, keeping the GoB involved in the process); (ii) be particularly careful to avoid delays in project execution; and (iii) as per recommendation 3, be selective and engage only in those areas where the country's capacity is not likely to be exceeded. | This recommendation is addressed in the same way as recommendation (3) above. See §3.1 and Chapter V of the strategy on selection criteria for priority areas, country absorptive capacity, project design and execution readiness, implementation capacity and donor coordination. |
| **6. Consider increasing in-country presence.** The greater coordination efforts recommended above, as well as enhanced execution support to the country, require a larger presence of the Bank in the country. OVE recommends that Management look for ways to achieve this, either by strengthening the representation or otherwise. Even if this should imply higher costs, the Bank should weigh them against the needs of the country. | Management is committed to ensuring adequate in-country presence commensurate with the scope of the country program to be developed under the new strategy. |