



RE-349

***Country Program Evaluation:
Belize 2004-2008***

Office of Evaluation and Oversight, OVE

Inter-American Development Bank
Washington, D.C.
October, 2008

For Official Use Only

TABLE OF CONTENTS

ACRONYMS

STRUCTURE OF THE REPORT

EXECUTIVE SUMMARY

I.	COUNTRY CONTEXT AND DEVELOPMENT CHALLENGES	1
	A. Public Sector-Led Growth and Unsustainable Debt Accumulation	1
	1. Debt Accumulation and Political Crisis	2
	2. Determinants of Growth	5
	B. Economic Activity and Exports	6
	C. Governance and Transparency	8
	D. Inequality and Welfare Indicators	8
	E. Environment and Natural Disasters	11
II.	THE BANK’S PROGRAM.....	12
	A. Objectives and Rationale of the CSBL.....	12
	B. Ex-ante and Ex-post Relevance	13
	C. Metric.....	20
	D. Consistency with the Strategies of the GoB and Other Donors	20
	E. Learning from the Previous Programming Cycles.....	21
III.	THE BANK’S PROGRAM IN EXECUTION	22
	A. Planned vs Approved Program	22
	B. Project Level Evaluability.....	24
	C. Efficiency of Preparation and Delivery	25
	D. Bank Supervision and Fiduciary Risk	26
IV.	RESULTS ACHIEVED.....	27
	A. Macroeconomic Stability.....	27
	B. Tourism and Environment	28
	C. Natural Disasters.....	30
	D. Agriculture.....	32
	E. Social Sector Development.....	34
	F. Trade Facilitation and Competitiveness Enhancement	35
	G. Private Sector Capacity-Building and Specific Initiatives	35

REFERENCES

ENDNOTES

ANNEXES: <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?Docnum=1833265>

ANNEX A: CONTACT LIST

ANNEX B: STATISTICAL ANNEX

ANNEX C: ASSESSMENT OF THE RESULTS ACHIEVED BY IDB OPERATIONS IN BELIZE, 2004-2008

ANNEX D: EVALUATION OF THE ECO-TOURISM TRAINING PROJECT IN BELIZE

ACRONYMS

ACP	African Caribbean and Pacific Countries
BAHA	Belize Agricultural Health Project
BCC	Belize City Council
BTIA	Belize Tourism Industry Association
CAC	Central American Countries
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CEA	Country Environmental Analysis
CFA	Country Fiduciary Assessment
CIMIC	Joint Civil-Military Cooperation Group
CPE	Country Program Evaluation
CPR	Country Portfolio Review
DFC	Development Finance Corporation
EIA	Energy Information Administration
EIU	Economist Intelligence Unit
ERF	Emergency Reconstruction Facility
ESW	Economic Sector Work
ETTP	Eco-Tourism Training Program
FTAA	Free Trade Area of the Americas
GoB	Government of Belize
HSRP	Health Sector Reform Program
IBRD	International Bank for Reconstruction and Development
ICDF	International Cooperation and Development Fund
IDA	International Development Agency
IFIs	International Financial Institutions
IIC	Inter-American Investment Corporation
IICA	Instituto Interamericano de Cooperación para la Agricultura
IMF	International Monetary Fund
LAC	Latin American Countries
LMP	Land Management Project
MIF	Multi Lateral Investment Funds
MOH	Ministry of Health
MOWT	Ministry of Works and Transport
NEMO	National Emergency Management Organization
NHI	National Health Insurance
NOAA	National Oceanic and Atmospheric Administration
OAG	Office of the Auditor General
OAS	Organization of American States
OIRSA	Organismo Internacional Regional de Sanidad Agropecuaria
OPEC	Organization of Petroleum Exporting Countries
OVE	Office of Evaluation and Oversight
PAHO	Pan American Health Organization
PAIS	Project Alert Identification System

PCR	Project Completion Reports
PDP	Policy Dialogue Paper
PER	Project Completion Review
PEU	Project Executing Unit
PPMR	Project Progress Monitoring Reports
PRC	Political Reform Commission
PUP	People's United Party
SAI	Supreme Audit Institution
SSB	Social Security Board
TC	Technical Cooperation
TDP	Tourism Development Project
TRS	Time Record System
UDP	United Democratic Party
UK/DFID	United Kingdom Department for International Development
WTO	World Trade Organization

STRUCTURE OF THE REPORT

This report presents an evaluation of the Bank's country program for Belize in the period 2004-2008. It is based on a review of documentary evidence provided by the Bank and other sources, as well as information gleaned from interviews with Bank staff in Headquarters and the Country Office, Government officials, local entrepreneurs and other persons during the missions of OVE to the country. The scope of this report is the IDB programming and operational cycle 2004-2008, which ended with the presidential election of February 2008. The revision of the activities carried out by the IDB for the preparation of the next Country Strategy with Belize is also out of the scope of this paper.

The evaluation is organized in the following chapters: Chapter I offers an overview of the structure of the Belizean economy and of the developments taking place during the period 2004-2008. Chapter II describes and evaluates the programming intent for the country based on two evaluative criteria: relevance and coherence. Chapter III reviews the program output's delivery efficiency and the qualitative dimension of the Bank's portfolio. Chapter IV examines the effectiveness of the Bank's operations in Belize.

EXECUTIVE SUMMARY

The purpose of this report is to evaluate the relevance, coherence and effectiveness of the IDB's Country Program with Belize from 2004 to 2008. The period was characterized by a considerable economic and political crisis. Although economic growth never fell below three percent in real terms, an unsustainable debt accumulation resulted in a near debt default and the country was near macroeconomic collapse. Downgraded several times by rating agencies and experiencing a severe reduction in foreign exchange, Belize had to restructure its debt to be able to meet its obligations. After a successful debt restructuring supported by the IDB, the country is slowly recovering its fiscal position and entering into a period of important challenges to consolidate its recovery and foster its development.

Context

Two decades of significant growth. Belize has been one of the fastest growing countries in Central America since the 1980s. The country's GDP grew at an average rate of 5.6 percent in real terms since independence, above the Central American and Latin American average, which has brought its per capita GDP to US\$ 3,839 in 2006, the highest in Central America after Costa Rica and Panama. The last growth period (1998-2003), however, was accompanied by a large expansion in public spending, which led to an unsustainable debt accumulation.

The last growth period was mainly driven by increased demand for goods spurred by public housing programs. Although the significant fiscal expansion was accompanied by high growth rates, total investment as a percentage of GDP fell during the period, and much of the spending was not in productive investments. An analysis carried out by OVE on the determinants of economic growth in Belize indicates that the spike in the rate of growth between 1998 and 2003 is explained by the increase in private consumption rather than by the increase in capital formation.

The significant public spending resulted in an unsustainable debt accumulation, with important economic and political consequences. It was not until 2004 that the government started addressing the risk of a balance of payment crisis. The threat of resignation by half of the cabinet, partly related to governance problems, made the situation even more complicated. After consultations with the IMF and with the support of the IDB, in May 2005 the government finally announced its decision to follow a "home grown" program to restructure the debt and ensure the sustainability of the debt service.

Although the Belizean economy is still dependent on the export of traditional agricultural products, non-traditional exports are gaining relative importance and tourism and services have increased notably. The Belizean economy has been historically oriented towards agriculture, although this sector, together with fishing and forestry, has declined in the period of analysis from 17.7 percent of GDP in 2004 to 13.0 percent of GDP in 2007. Tourism has increased notably, representing now 20 percent of the GDP and 32.3 percent of exports. Agriculture and fishing production is exported

mainly to the United States, although since 2006 other countries in Central America have become an important destination for Belizean products, partly because of the phasing out of preferential access to markets for sugar, citrus, and banana exports under EU and US trade agreements. It is mainly exports of services what have sustained growth rates in Belize after the tightening of the fiscal policy.

Findings

The Country Strategy of Belize identified four major development challenges to be tackled during the period: i) increasing macroeconomic stability, ii) fostering private sector-led growth, iii) promoting environmental sustainability, and iv) promoting human development. Considering these challenges, the CSBL identified the contribution to Belize's sustainable economic growth and poverty reduction as its overarching goals. To achieve these goals, the CSBL main objective was to "assist Belize in its transition toward private sector-led growth". This objective was to be pursued through interventions in "two strategic areas: i) improvement of the public sector's capacity to foster private sector development, and ii) support private sector capacity-building and specific activities".

The Bank's program, however, did not anticipate the seriousness of the economic and political problems of Belize and had to be adjusted to the reality of the country shortly after its approval. In general terms the design of the strategy was rather poor. Although the CSBL broadly identified important issues challenging Belize's development, the diagnostic was weak: (i) the CSBL did not properly address some key development challenges, namely those related to governance issues strictly connected with the country's poor fiscal performance; (ii) the CSBL did not provide robust assessments of the seriousness of the identified problems. The underestimation of the macroeconomic problem made the strategy almost irrelevant. The weak diagnostic of the private sector was never complemented by a complete private-sector strategy. As a consequence, the strategic priorities were poorly defined and the actual executed program was not as targeted and well-timed as it should have been. The CSBL also included several problems of structural logic, evaluability and consistency with the GoB's and other donors' priorities.

Although the IDB played an important role in supporting Belize in dealing with its largest macroeconomic crisis since its independence, the IDB also lost the opportunity to promote some key institutional reforms that would have improved the country's long-run economic stability. In light of the macroeconomic difficulties of Belize, the financing of the Bank was timely and effective. Thanks to the financial support provided by the CDB and the IDB, Belize was able to avert a balance of payment crisis in late 2006. In addition, the IDB played an important role coordinating the actions of the International Financial Institutions (IFIs) involved in the Belize adjustment program. Furthermore, the Bank effectively supported the authorities in the restructuring of the Development Financial Cooperation (DFC), which was one of the major sources of fiscal imbalances. However, the IDB and the country lost an opportunity to promote deeper institutional reforms that would have improved the country economic long-run

stability. In particular, the public accounting and budgeting systems and the public accountability mechanisms still require major improvements.

Although the IDB operations seem to have produced some appreciable results, the long run sustainability of these achievements remains a major concern in most of the cases. Major data limitations notwithstanding, OVE found some evidence of the effectiveness of the Bank intervention in the areas of Natural Disasters Preparedness, Tourism, Land Management and Agricultural Health. Thanks to the Bank's operation, the National Emergency Organization (NEMO) is currently an independent and sufficiently equipped institution. The tourism sector has clearly benefitted from the excavation and consolidation of major Maya sites and from a training project that helped to set up a national training system for the industry. The Belize Agricultural Health Authority (BAHA) has gained the reputation of an effective and independent regulator and has developed important set of services that the private sector is willing to pay for. In health, although OVE found some evidence of improvements in some outcome indicators, the sustainability of the health reforms is threatened by the lack of a defined financing mechanism in the medium and long run. Similarly, achievements in tourism and agriculture are threatened by sustainability problems. Maintenance is a major problem for both the hurricane preparedness and the tourism infrastructure. BAHA is providing basic public services, such as those related to food safety, and requires constant public financial support.

In many cases, the potential effectiveness and sustainability of the IDB operations were reduced by major execution delays, in particular when the construction of infrastructure was involved. In the case of the Hurricane Rehabilitation and Disasters Preparedness Program, the construction delays had important consequences in terms of availability of shelters. A regional shelter planned for the southern city of Punta Gorda was not constructed, leaving the urban population without proper protection in case of a high category hurricane. In addition, these delays and the upcoming fiscal constraints did not allow completing important institutional strengthening activities, aimed at organizing the maintenance of the infrastructure.

The Bank's capacity to monitor results remains weak and hindered by the lack of data and studies. The evaluability of the IDB's operations remains rather low and the data generation process was weak in most of the cases. Significant inconsistencies were found in the Bank monitoring and supervision systems, even when reporting on outputs and activities (for instance, it is unclear from the IDB monitoring system how many shelters were eventually financed with the IDB contributions). Attribution of outcomes is even more problematic, since no data are systematically collected for this purpose.

Recommendations

The IDB must develop a clear and comprehensive fiscal sustainability analysis and make sure that all future operations are consistent with it and clearly prioritized. No new operation should be submitted for approval without demonstrating consistency with the Belizean debt stabilization strategy. In addition, all future operations must include a

detailed cost-benefit analysis and clearly demonstrate their consistency with the Country's development priorities.

The Bank must improve its understanding of the Belizean institutional system and support a comprehensive Country Fiduciary Assessment (CFA) of Belize. The recent governance problems were not only the consequence of individual actions, but also of an institutional system that still lacks the basic checks and balances. The GoB difficulties in indentifying and budgeting priority investments need to be urgently addressed. The Bank should support the GoB effort of producing a fiduciary assessment adopting an internationally recognized methodology.

The Bank must keep supporting basic institutional reforms to improve the GoB efficiency. The political cycle just started in Belize may offer the Bank a new opportunity to support the GoB in this effort. The Bank should adopt the recommendations of the CFA and the unattended recommendations of the previous Public Expenditure Review (PER) as guidelines for the definition of new loans and for the identification of technical assistance projects. In addition, the Bank should work with the GoB to indentify the best lending and no-lending instruments to achieve these objectives.

A comprehensive private sector strategy with Belize is also long overdue. During the period under consideration, although the IDB operations with the private sector were beneficial, they lacked strategic focus and were poorly coordinated. The next strategy needs to include concrete policy recommendation based on detailed assessments of the Belizean private sector structure and potential for development. In this context, the Bank should also comply with its commitment to address the problem of financing for development in Belize. As a first step, a detailed assessment of the root causes of the lack of credit supply for SMEs should be undertaken. On the basis of the results of this assessment, the Bank should support the Belizean authorities in the implementation of the actions required to improve access to credit. In addition, the Bank should also consider strengthening the Country Office capacity to locally support the IDB's private sector initiatives.

IDB financing should be focused on corrective measures aimed at improving the sustainability and to correct the most important shortcomings of the previous operations. Particularly concerning is the sustainability of the infrastructural works of the hurricane preparedness and, to a minor extent, tourism projects. The apparent shortage of shelters capable to withstand Hurricane Category-five is a top priority. The IDB should support the GoB in the construction of the missing hurricane category-five resistant shelter in the Toledo district. The financing of missing infrastructure related to the health and tourism project should be also considered. Technical assistance for the planning of the maintenance of the constructed works is also essential.

The execution shortcomings also demonstrated the need to improve the IDB supervision capacity. The major inconsistencies detected in the Bank monitoring and evaluation system need to be eliminated.

I. COUNTRY CONTEXT AND DEVELOPMENT CHALLENGES

1.1 In the period covered by this evaluation, 2004-2008, the economic, social, and political context of Belize was complex. A strong economic growth, combined with a significant expansionary fiscal policy, and an unsustainable debt accumulation resulted in a near debt default and a political crisis. Although economic growth never fell below three percent in real terms, the country was near macroeconomic collapse. Downgraded several times by rating agencies and experiencing a severe reduction in foreign exchange, Belize had to restructure its debt to be able to meet its obligations. During the same period, the threat of resignation by half of the cabinet, partly as a consequence of public finances mismanagement allegations, made the situation even more complicated. The country is slowly recovering its fiscal position and entering into a period of important challenges to consolidate its macroeconomic recovery and develop its economy (see Table 1).

Table 1: Selected Macroeconomic Indicators

	2001	2002	2003	2004	2005	2006	2007
Real GDP growth	4.9%	5.1%	9.3%	4.6%	3.1%	4.0%	4.1%
Overall Fiscal Balance	-8.2%	-3.7%	-10.8%	-6.3%	-6.8%	-1.8%	
Current Account Balance	-21.5%	-17.8%	-21.2%	-14.8%	-14.4%	-2.0%	
Debt (as % GDP)	74.1%	83.2%	95.7%	87.5%	88.0%	81.6%	
IADB (as % Multilateral Debt)	28.6%	32.8%	36.8%	36.6%	34.2%	37.6%	
Real effective exchange rate index (2000 = 100)	100.88	100.45	97.90	95.52	94.29	94.63	
Private Consumption (as % GDP)	76.1%	77.3%	72.9%	69.6%	66.1%		
Gross Capital Formation (as % GDP)	29.8%	26.8%	21.1%	19.1%	20.0%		
Imports of Goods and Services (as % GDP)	69.2%	67.6%	63.2%	55.9%	57.5%		
Exports of Goods and Services (as % of GDP)	53.5%	55.3%	57.2%	56.9%	62.1%		
Stay-over visitors arrivals	195,955	199,521	220,574	230,832	236,573	247,309	

Source: Central Bank of Belize, GDF and WDI datasets.

1.2 This chapter provides an overview of the recent evolution of the Belizean economy. The assessment of the economic growth and debt dynamics shows that, despite historically high growth rates, the recent slowdown and the high debt accumulation still demand significant fiscal discipline in the medium term. The analysis of the Belizean economy reveals some slight changes of the productive structure. The tourism sector grew substantially, small oil reserves were discovered and the exports of citrus products increased, while those of sugar decreased, when measured as percentage of total export. Poverty is still concentrated in the southern part of Belize, and data show significant differences in education indicators between urban and rural areas and among districts. The data also show some improvement in health and education coverage. Finally, transparency and governability have worsened in Belize during the period covered by this evaluation.¹

A. Public Sector-Led Growth and Unsustainable Debt Accumulation

1.3 Belize has been one of the fastest growing countries in Central America since the 1980s. This growth, however, has not been steady, with a major slowdown

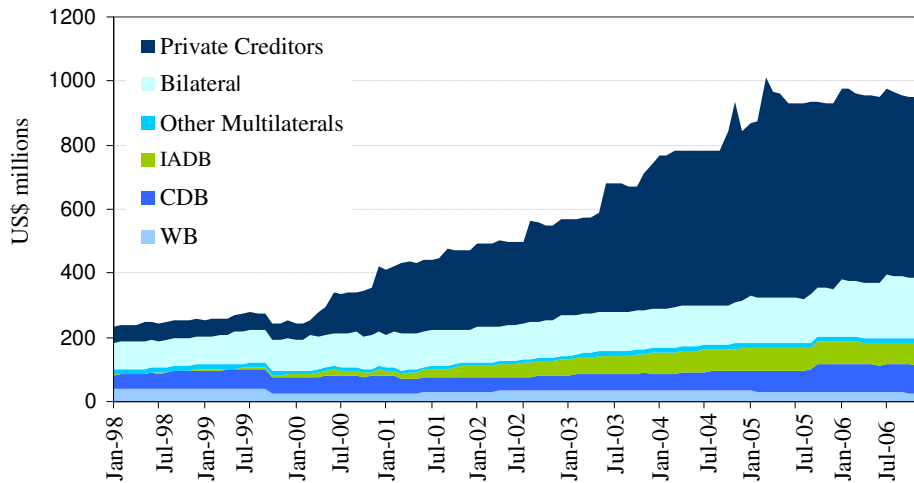
during most of the 1990s (Figure B1 in the Annex). This slowing trend was broken in 1998, when the Government of Belize (GoB) embarked on a program to accelerate economic growth based on an expansionary fiscal policy. The country's GDP grew at an average rate of 6.6 percent for the next 6 years, above the Central American and Latin American average, which brought its per capita GDP to US\$3,839 in 2006, the highest in Central America after Costa Rica and Panama.

- 1.4 The expansionary policy that accompanied the strong economic growth during this period, however, resulted in a considerable accumulation of debt that led the country to a near macroeconomic collapse. According to the IMF's article IV consultation for 2003 the measures implemented by the GoB "included tax cuts, a sharp increase in government investment, and subsidized credit to the private sector through the state-owned Development Finance Corporation (DFC)"—the state development bank. Coupled with the dubious quality of the investments financed with this debt and the limited long-term effects of the policies implemented during this period, the long-run cost of this expansion was large, potentially outweighing its short-term benefits.

1. Debt Accumulation and Political Crisis

- 1.5 The GoB's expansionary fiscal policy followed through late 2004—which was financed by external debt—resulted in a overall central government deficit of 6.3 percent of GDP in 2004 (in 2003 it reached 10.8 percent) and current account deficit of 14.8 percent of GDP in 2004 (in 2003 it reached 21.2 percent). The GoB's debt grew exponentially (Figure 1), reaching US\$ 1,118 million in 2006, or 92.1 percent of GDP. This debt growth was financed mainly by private creditors: while 23.4 percent of the stock of public and publicly guaranteed external debt was financed by private creditors in 1998, that proportion increased to 72.2 percent in 2003—in that period the stock of official debt grew 22.8 percent while the stock of private debt grew 941.7 percent. IDB's share of the official creditor stock of debt went from 1.9 percent in 1998 to 21.6 percent in 2003—a growth of 1,526 percent—meanwhile the World Bank's share went from 19.9 percent to 12.1 percent in the same period—a reduction of 13.2 percent.²

Figure 1: Evolution of Public Sector External Debt, 1998-2006



Source: Central Bank of Belize

- 1.6 Government loans to the private sector were distributed by the DFC. The DFC’s portfolio grew 239.8 percent from December 1998 to December 2003—402.1 percent to December 2004—mainly in the housing and real estate sectors, which account for 43.9 percent of the portfolio. According to a study financed by the Bank in 2006, the “DFC lending ha[d] been overly concentrated in two regions and in the construction and personal loans sectors. Also, DFC loans ha[d] been concentrated in large borrowers, leaving medium and small borrowers without sufficient financing.”³ In order to accelerate housing development, the DFC lent directly to customers and bought houses from developers who obtained financing either from commercial banks or from DFC itself, bearing the brunt of the risk in the latter case. Some of these loans went to finance enterprises associated with DFC’s directors.⁴ It is worth noting that, during this period, the DFC was under the supervision of the Ministry of Finance, and not the Central Bank, which has the oversight powers of the banking system.
- 1.7 From 1999 to 2002, DFC and the Social Security Board (SSB) – the state pension fund, the portfolio of which included loans to the Belizean private sector as part of its investment strategy – participated in complex structured finance processes where, by pooling mortgages and offering them as collateral, they were able to sell financial instruments in the Caribbean and in the United States in the form of mortgage-backed non-callable securities and, consequently, convert illiquid assets into cash.⁵ The funds obtained from these transactions could, in principle, free capital requirements and allow more lending from the DFC. In addition, this presumably made some SSB investments liquid.
- 1.8 The process, however, also transformed private debt —owed by the local private sector to DFC and the SSB— into sovereign debt. These securities, in fact, were guaranteed by the Government of Belize throughout the DFC and the SSB, which were the issuers of the bonds collateralized with loans to the private sector. As of December 2003, 50.4 percent of the total number of loans was non-performing

- which corresponded to 26.3 percent of the entire DFC portfolio. When in August 2004 some of the mortgages used as collateral defaulted on their payments, SSB was forced to pay about US\$2.8 million on behalf of the delinquent debtors — 91 percent of the mortgages used as collateral and backed by SSB came from companies associated with the then chairman of the DFC.
- 1.9 During the same month of August, more than half the cabinet threaten to resign to demand the firing of the Finance Minister. The result of this political crisis was that three of the seven protesting ministers were fired and the finance minister was transferred. In the same period, credit rating agencies downgraded Belize's sovereign credit rating several times. As will be discussed in Chapter 2, this is when the IDB's CSBL was approved.
 - 1.10 It was not until late 2004 when the government started addressing the risk of a balance of payment crisis. When in early 2005 the 2005/2006 budget was presented to parliament —with a proposal, among other actions, for tax increases and a postponement of salary increases previously agreed on— it was greeted by street protests and strikes that forced the government to implement key budget measures. Instead of entering into a formal program with the IMF, the government announced, in May 2005, its decision to follow a “home grown” program which prompted rating agencies to further downgraded Belize's sovereign credit rating, stating a lack of confidence in the government's ability to carry out the necessary adjustments.
 - 1.11 The acute liquidity difficulties to service the large public debt accumulated in the previous years led the government to offer, in December 2006, a debt swap to private creditors. About 98 percent of bondholders participated in the coordinated restructuring and replaced their claims with new instruments maturing in 2029. The operation allowed the government to change the profile of the debt, and reduced the pressure on public finances in the short-run.
 - 1.12 Despite the successful restructuring of the debt, the sustainability of the debt service in the medium and long run will require important efforts to maintain significant primary surpluses (Table 2). The IMF simulated three debt scenarios for solvency and liquidity analysis. Scenario A assumes unchanged primary surplus (1.5 percent of GDP comprising primary surplus budget target in FY 2007/08 and oil permanent sustainable income). Scenario B assumes that the primary surplus of 3.1 percent is maintained. Finally, scenario C assumes a front-loaded fiscal adjustment targeting a debt/GDP ratio of 40 percent in 2019 when the first amortization of the restructured debt falls due.

Table 2: Fiscal Scenario (in percentage of GDP)

	2007	2008	2009	2010	2011	2012	2015	2019	2020	2025
Scenario A										
Primary balance	2.7	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Total debt	90.2	87.9	86.5	85.3	84.6	84.4	86.0	89.5	90.7	99.0
Scenario B										
Primary balance	2.7	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Total debt	90.2	86.3	83.1	90.1	77.6	75.5	70.7	64.4	62.9	55.7
Scenario C										
Primary balance	2.7	3.2	3.6	4.4	4.7	4.7	4.0	3.7	3.5	2.0
Total debt	90.2	86.1	81.4	76.3	71.2	66.4	54.7	40.8	37.3	26.8

Source: IMF 2008

- 1.13 The long run debt sustainability will depend on the type of new debt issued (multilateral and domestic vs. external commercial debt), the fiscal adjustments carried out by the government, GDP growth, interest rates, and the depreciation of the currency if any. Under a baseline scenario, where multilateral and domestic debt stocks are kept constant, the IMF foresees that the debt-to-GDP ratio will be unsustainable in the long run and very much vulnerable to standard shocks: it forecasts a ratio of 89.5 percent in 2019; this ratio could even reach 127 percent in 2008 were a depreciation of the currency to occur. Under an active scenario (scenario C), where multilateral debt is available to meet the financing requirements and the government reduces its fiscal deficit, the IMF forecasts a reduction of the debt-to-GDP ratio to 66.4 percent by 2012 and 40.8 percent by 2019. Under scenario C, vulnerability to shocks is lower than under scenario A.

2. Determinants of Growth

- 1.14 Although the significant fiscal expansion was accompanied by high growth rates—the economy grew at an average rate of 9.4 percent in real terms per year between 1998 and 2003—this growth was based mostly on domestic demand of imported goods. An analysis carried out by OVE on the determinants of economic growth in Belize indicates that the spike in the rate of growth between 1998 and 2003 is explained by the increase in private consumption rather than by the increase in capital formation or government consumption.⁶ Corroborating this analysis, Hausmann and Klinger (2006) note that, during this period, total investment as a percentage of GDP fell, and much of the spending was not in productive investments.
- 1.15 The high cost of debt servicing left little room for investment after 2005, so investment fell during the period. This decline has surely affected public investment in infrastructure and infrastructure deterioration might become a binding constraint on growth. Data from the Central Bank of Belize shows that while total expenditure decreased by 4.9 percentage points of GDP between 2003 and 2007, capital expenditure decreased by 9 percentage points of GDP. It went from 14 percent of GDP in 2003 to 4.9 percent of GDP in 2007.⁷

- 1.16 Thus, the success of the public-led growth strategy carried out by the GoB was limited to a short period of significant expenditure, while it has incurred considerable medium and long run costs.
- 1.17 From 2004 onward, growth has relied on exports of goods and services which have been steadily increasing since 1995 at a real rate of 12 percent per year (between 1995 and 2005) rather than on private consumption (Table 3). Tourism receipts have grown, since 2003, at an average real rate of 17.9 percent per year (between 2003 and 2006); tourist arrivals have grown at an average rate of 6 percent per year for stop-over visitors and at 18.5 percent per year for cruise visitors (both figures between 2003 and 2006). It is mainly exports of services what have sustained growth rates in Belize after the tightening of the fiscal policy.

Table 3: Total Value of Exports 2001-2006

	2001	2002	2003	2004	2005	2006
Good Exports	538.1	619.4	632.6	614.9	650.5	852.9
Service Exports	347.3	366.2	425.9	470.6	584.6	710.8
Total Exports	885.4	985.6	1058.5	1085.5	1235.1	1563.7
of which tourism	26.9%	26.2%	28.6%	31.0%	33.1%	32.3%

Source: Central Bank of Belize

B. Economic Activity and Exports

- 1.18 Belize is an open and regionally integrated economy. Benefiting from its location at the geographic crossroads of Central America and the Caribbean, Belize has sought to establish closer political and economic ties with the English speaking Caribbean countries. Belize joined the Caribbean Community (CARICOM) in 1974 and more recently, Belize is seeking to increase trade relations with its Central American neighbors; Belize is a member of the Central American Integration System (SICA) as well as other Central American organizations. In addition to SICA, Belize is also part of the Plan Puebla Panama, which links the Central American region with Mexico. Trade with Central American neighbors has increased notably in recent years, in part due to recent integration developments, and further integration with Mexico and other Central American countries through the negotiation of comprehensive bilateral agreements might benefit further Belize.
- 1.19 The Belizean economy has been historically oriented towards agriculture, although this sector together with fishing and forestry has declined in the period of analysis from 17.7 percent of GDP in 2004 to 13.0 percent of GDP in 2007. Tourism has increased notably, representing now 32.3 percent of exports. Agriculture and fishing production is exported mainly to the United States, though since 2006 other countries in Central America have become an important destination for Belizean products. In 2003 exports to Central America accounted for 0.3 percent of exports but in 2007 they totaled 28.5 percent.
- 1.20 These changes are explained by the phasing out of preferential access to markets for sugar, citrus, and banana exports under EU and US trade agreements.

- Although the EU has proposed assistance to Belize, and CARICOM in general, as an accompanying measure in order to deal with the sugar market reform — price cuts in 2006-2010 and the planned elimination of sugar protocol in 2010-2015— production seems to be diverting away from sugar and banana and into non-traditional products like papaya. In fact, while production of papaya grew 52.3 percent between 2003 and 2007, production of sugar and banana declined 17.2 percent in the same period. Studies financed by the UK Department for International Development in 2004 stated that Belize was able to continue exporting bananas to Europe even under a free trade scenario given that it had, together with Surinam, the most competitive banana industries in the Caribbean (yields in Belize were comparable to those in Ecuador). A similar study for the sugar industry concluded that the prevalent cost structure at the time (2003) rendered Belize unable to withstand a price cut above 38 percent and forecast, at best, a reduction of sugar production, as it actually occurred.
- 1.21 Exports were also spurred by the recent discovery of oil in Belize. After many years of exploration —dating back to the 1950s— enough oil was finally discovered in the country to be commercially viable. Although in the first year of commercial exploitation (2006) production reached only 2,300 of barrels per day (bpd), oil exports accounted for 16.5 percent of goods exports in 2006 and 28.1 percent in 2007.⁸ Oil production is expected to contract 10 percent a year, declining to 800 bpd in 2019, when according to the industry estimates the oil resources should be exhausted.
- 1.22 Although exports in general have evolved favorably in the last years, exports of traditional goods have started to decline. While the four principal goods exported from Belize in 2003 —marine products, sugar, orange concentrate, and banana— accounted for 78.5 percent of total goods exports that year; these same products accounted for only 53.7 percent of total goods exports in 2007. Were not for the oil, Belize goods exports would have declined in 4.3 percent between 2003 and 2007. The country, however, has made an effort to diversify into non-traditional crops - sugar, bananas, citrus, and apparel are considered traditional goods. Papaya, for instance, an almost non-existent crop in 2000, increased its export volumes in 385 percent between 2000 and 2007. It made 5.1 percent of goods exports in 2007 even after the plantations were severely damaged by hurricane Dean in August 2007.
- 1.23 Although it is clear that Belize would benefit from upgrading its non-traditional export basket in face of eroding trading preferences for sugar and banana, the restrictions for the development of new products seem to fall on access to credit. This conclusion is supported by the growth diagnostic recently carried out by Hausmann and Klinger (2007) to determine which factor might be hindering development of Belize. After a detailed analysis on the potential constraints to growth, this report concludes that the binding constraint to economic growth is access to financing which is the consequence of poor fiscal discipline —poor budgeting institutions, low public savings, and tax on financial intermediation

through reserve requirements needed to support the currency peg— and possibly inefficient and uncompetitive domestic financial intermediation.⁹

C. Governance and Transparency

- 1.24 As a former British colony, Belize inherited its institutions from Great Britain, and follows the Westminster system of government. This system is largely based on collective accountability. In this model, the vote in general elections is basically the only tool available to the citizens to hold the members of the parliament and the cabinet accountable.¹⁰
- 1.25 In the case of Belize, in particular, the few mechanisms in place intended to collect and provide information about the government performances are weak: for instance, the latest Report of the Auditor General (for the year April 2006 to March 2007) showed the examination of the financial statements submitted by the Accountant General for the year ending March 31st 2003, a 4-year lag.¹¹
- 1.26 According to The Finance and Audit (Reform) Act of 2005 the Auditor General has to report all the irregularities to the Minister of Finance.¹² Then, the body vested with the power to censure the responsible for such irregularities is the Public Accounts Committee, comprised of Members of Parliament. There are, however, no penalties for mismanagement of public funds: the same Finance and Audit Act states that “Financial Orders and Store Orders are administrative instructions solely for the internal use and guidance of public officers” and consequently do not represent pieces of legislation, but guidelines of the Minister of Finance to public officers.
- 1.27 The weaknesses of check and balance mechanisms have defined economic, political and social developments in the period of analysis: one of the most striking statements of the Auditor-General’s report is that, for the 2002/2003 financial year, “as many as 40 percent of public debt transactions could not be audited because of the absence of source documents.” Though this statement has been challenged,¹³ it points out the limitations of the Belizean supervision capacity during the phase of high debt’s growth that led the country into near default.¹⁴

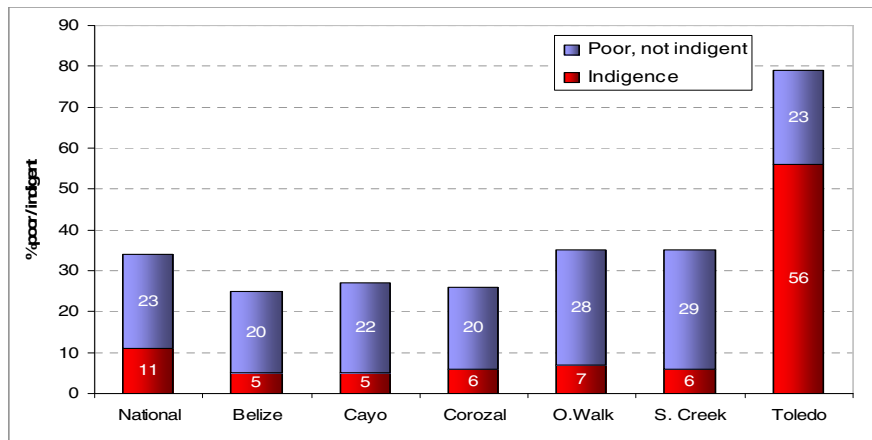
D. Inequality and Welfare Indicators

- 1.28 Belize is an ethnically diverse country. Its population totals 311,480 (2007 estimates) and according to the last Survey of Living Conditions (2002), is comprised of 54.1 percent self-identified mestizos, 24.2 percent creoles, 10.7 percent mayans, 4.2 percent garifunas (gariaguas), and 6.9 percent that identified themselves as other (different from the categories shown above and comprising German-speaking Mennonites, Chinese, East Indians, and immigrants from the Middle East).¹⁵ This composition has changed considerably in the last 25 years: in 1980, the proportion of creoles was around 48 percent while mestizos accounted for 33 percent and garifunas 8 percent. Woods, Perry, and Steagall

(1997) indicate that “emigration of large numbers of English-speaking Afro-Belizeans (creoles and Garifunas) to the United States and their replacement by Spanish-speaking immigrants (mestizos and Amerindians) from troubled neighboring countries in Central America were altering the ethnic composition and spatial distribution of the country’s population.”¹⁶

1.29 Ethnic diversity has been well handled in the country, though income inequalities are persistent among different ethnic groups and regions, especially, between the southern district of Toledo and the rest of the country. As Devoto (2006) points out the number of households living under the poverty line is low compared to its neighbors, but a relatively high number of people living under the poverty line are indigent. Using the 2002 Survey of Living Conditions, Devoto (2006) shows that 24.5 percent of households (or 33 percent of individuals) were poor and 7.5 percent were indigent (10 percent of individuals). The income gap was low, at 11 percent, meaning that poor households needed to increase their per capita consumption by 11 percent on average to reach the poverty line. National poverty and indigence rates in Belize are not as severe as in other Central American countries, though they remain a concern in the southern district of Toledo.

Figure 2: Poverty and Indigence Rates by District, 2002



Source: Devoto (2006)

1.30 Different ethnic groups are concentrated in different areas: Mestizos are concentrated in Cayo district, Orange Walk, and Corozal; Creoles are concentrated in urban centers in Belize district, specifically in Belize City; Mayans are concentrated in rural areas in Toledo district; and Garifunas are concentrated in Stann Creek in the town of Dangriga and in Belize district. Other ethnic groups are concentrated in Cayo and Belize districts. The level of employment is statistically the same among different groups, except for the Mayan population. Within group inequality is low, except for mayans. This last group suffers from the largest consumption expenditure inequality in Belize: while the GINI coefficient for consumption expenditure for the country as a whole is 0.33, for the Mayan population is 0.51. These differences, however, might be explained in part by regional factors: while in 2002 mayans located in

Toledo spent, on average, US\$492.7 per year; mayans in other districts were able to spend US\$1,244.9.

Table 4: Consumption and Inequality by Ethnicity/Region, 2002

Ethnicity	Average Consumption Expenditure (US\$)	GINI Coefficient	District	Average Consumption Expenditure (US\$)	GINI Coefficient
Mestizo	1,472.3	0.40	Belize	2,154.0	0.41
Creole	1,983.7	0.41	Corozal	1,622.8	0.36
Maya	681.3	0.51	Stann Creek	1,421.3	0.37
Garifuna	1,715.6	0.37	Cayo	1,390.9	0.41
Other	2,414.4	0.45	Orange Walk	1,295.6	0.39
			Toledo	854.7	0.59
Total	1,586.7	0.33	Total	1,586.7	0.33

Source: Own calculations using Survey of Living Conditions

- 1.31 According to UNESCO, enrollment rates in education have improved in recent years, especially in pre-primary and secondary, though there are still important differences in enrollment by district, and very significant inequality in learning outcomes by district and between urban and rural areas.¹⁷ Corozal has the highest results in the CSEC (Secondary school exit exam), while Toledo has the lowest.¹⁸ There are vast differences in performance between urban and rural students in all the districts (except in Cayo), both in Math and English language. The latter is especially low in rural parts of Toledo, where only 26 percent of primary school students obtain a “satisfactory level of performance” in the test.
- 1.32 In addition to the large differences observed in learning outcomes in secondary school, efficiency indicators such as repetition and drop-out rates also vary by district. Belize has the highest secondary school enrollment with 43.3 percent of secondary school-aged children enrolled in secondary school, while Toledo has the lowest with 24.5 percent. Corozal, despite having the best results in the secondary school exit exam, has only a 33.9 percent net enrollment rate. Drop-out rates in secondary school are high, especially in Cayo, Orange Walk and Toledo.

Table 5: Secondary Enrollment Rates, Transition, Repetition and Drop-out Rates, 2004-05

	Net Enrollment Rate	Transition to Secondary	Repetition	Drop-out
Belize	43.3	96.0	8.0	9.6
Cayo	30.1	88.3	7.9	12.6
Corozal	33.9	71.1	4.9	9.3
O. Walk	26.1	78.5	8.9	12.3
S. Creek	34.4	81.5	6.1	7.7
Toledo	24.5	87.0	6.1	10.4

Source: Ministry of Education, Planning and Project Unit, 2007

- 1.33 On health, despite small increases in expenditure, there have not been significant improvements in inputs or intermediate outcome indicators, though the efficiency of the system seems to have improved slightly. Total expenditure remained

relatively constant until 2005, when it increased significantly, both as a percentage of GDP and per capita. However, the number of health centers has not increased, and neither has the number of physicians per capita. The accessibility of the system improved, when measured by the percentage of the population less than 30 minutes away from a health center (97 percent). However, health posts are often understaffed or vacant, and access to hospital care is still limited for 7 percent of the population¹⁹. Bed occupancy rates (a measure of efficiency) improved in the 2002-2005 period, reverting in 2006 to 2004 levels. There are, however, no clear improvements on the percentage of births in hospitals, or infant mortality rates.

Table 6: Selected Health Indicators, 2001-2006

	2002	2003	2004	2005	2006
Population, total	265,200	273,700	282,600	291,800	297,234
Population growth (annual %)	3.0	3.2	3.2	3.2	1.9
Health expenditure (%GDP)	2.5	2.4	2.5	3.0	2.7
Health expenditure per capita (2002 BZ\$)	171.3	166.7	175.1	201.8	200.2
Number of health centers	44.0	44.0	40.0	37.0	40.0
Number of health posts	49.0	49.0	44.0	43.0	60.0
Physicians per 10,000 pop	9.2	7.7	7.8	8.5	8.7
Bed occupancy rates	47.9	48.9	49.8	53.6	49.4
Percentage of births in-hospital	77.5	76.7	76.1	76.8	77.0
Mortality rate, infant (per 1,000 live births)	19.2	14.8	14.7	18.4	19.6

Source: Ministry of Health

E. Environment and Natural Disasters

- 1.34 The location of Belize within the Hurricane belt makes it prone to severe natural disasters. According to the National Emergency Management Organization (NEMO), on average, the country is affected once every three years by a hurricane and, over the last few years, has experienced the effect of several natural disasters such as tropical storms and floods.²⁰ In August 2007, the southern edge of the hurricane Dean passed through Belize's northern region, bringing heavy rains, local flooding and large waves along the coast. According to NEMO, the estimated damages amounted to US\$ 50 million. Particularly affected were the housing sector (US\$ 7 million), the papaya (US\$ 15 million) and sugar cane production (US\$ 8 million).
- 1.35 The environment is a key resource for the Belizean development. The Country Environmental Assessment (CEA) for Belize identified the potential environmental risks that can constrain growth and competitiveness of the country. The study highlights among the most urgent environmental problems of the country its inadequate sanitation and waste disposal facilities, along with the contamination and degradation of water resources. As the necessary steps to improve that situation, it is usually recommended to foster a more environmentally-friendly tourism development, through the improvement of the deficient waste and wastewater management and the upgrading of the land use zoning.

II. THE BANK'S PROGRAM

- 2.1 Belize became a member of the Bank in September 1992. Since then, three programming papers have been prepared, in 1993, 1999 and 2004. The last Country Program Evaluation, carried out by OVE in 2004, evaluated the 1993 and 1999 programming papers. This chapter evaluates the relevance and coherence of the last Country Strategy of Belize (CSBL).
- 2.2 Despite the difficulty of the timing of the CSBL, this evaluation found that the document was: i) too broadly defined, in particular with reference to the private sector development; ii) incomplete, since it omits two highly relevant development challenges, which became clear during the preparation of the CSBL; and, finally, iii) prepared with a low level of evaluability.

A. Objectives and Rationale of the CSBL

- 2.3 The CSBL was formally approved by the Board on September 8th 2004, about a year after the approval of the concept note, almost four months after the approval of the document by the Programming Committee and the GoB, and three weeks after the political crisis that brought to light the magnitude of the debt and transparency problems in Belize (Table B1 in the Annex). The timing, thus, becomes highly relevant, since the definition of what was known “ex-ante” changed between the elaboration of the document and the Board approval. In this evaluation, when discussing the ex-ante relevance and completeness of the CSBL, as well as its capacity to anticipate and prioritize development challenges, we refer to the period up to the Board approval of the CSBL. “Ex-post” refers to the period after the final Board approval of the CSBL.
- 2.4 The CSBL identified four major development challenges to be tackled during the programming period 2004-2008: i) increasing macroeconomic stability, ii) fostering private sector-led growth; iii) promoting environmental sustainability, and iv) promoting human development (IDB 2004a). Considering these challenges, the CSBL identified the contribution to Belize’s sustainable economic growth and poverty reduction as its overarching goals. To achieve these goals, the CSBL main objective was to “assist Belize in its transition toward private sector-led growth” (IDB 2004a, par. 3.1). This objective was to be pursued through interventions in “two strategic areas: i) improvement of the public sector’s capacity to foster private sector development, and ii) support private sector capacity-building and specific activities” (IDB 2004a, par. 3.1).
- 2.5 At face value, the CSBL did not provide a clear assessment of how the achievement of the main objective would have contributed to the overarching goals. The CSBL included a rather weak assessment of the private sector’s current structure and potential for development, and, therefore, it did not provide any clear evidence on the private sector potentiality to lead a sustainable growth. As a consequence, the remaining structure of the strategy, which included direct promotion of the private sector and promotion of the public sector’s ability to

foster private sector development, was deprived of an evidence-based foundation. Even vaguer is the connection between the transition towards a private sector-led growth and poverty reduction. In this case, the strategy did have a more detailed assessment of poverty in Belize, indicating the prevalence of extreme poverty and its regional concentration. However, the document did not mention how the activities aimed at supporting the private sector would have impacted these pockets of regionally concentrated extreme poverty. In addition, the proposed IDB objectives were generally reduced to the outputs of the proposed program activities, while development outcomes got placed under the full responsibility of the country, without any clear indication of the Bank's contribution to their achievement. Finally, the CSBL did not discuss alternative strategies for achieving development objectives.

B. Ex-ante and Ex-post Relevance

2.6 Although the CSBL identified important issues challenging Belize's development, it overlooked other ongoing problems that were threatening the Country's stability (governance and transparency), and it did not always provide a robust assessment of the identified problems and their relative importance. In particular, the assessment of Belize's macroeconomic situation was based on an overoptimistic review of the growth achievements of the GoB's fiscal policy and an underestimation of the seriousness of the debt problem. The CSBL failed to identify the root causes of the macroeconomic imbalances, ignoring important governance and institutional challenges, which significantly contributed to generate the fiscal imbalances. The private sector assessment was based on limited evidence and did not fully incorporate the recommendation of the background studies produced for the CSBL. Finally, the need to promote human development had little empirical evidence and, in addition, the CSBL did not provide any convincing justification for the Bank's prospective disengagement from the social sectors.

2.7 **Superficial Analysis of the GoB's Fiscal Policy.** In its description of the recent macroeconomic evolution of Belize, the CSBL seemed to endorse the fiscal policy of the first Musa's administration (1998-2003), without providing convincing evidence on its effectiveness. The CSBL stated that the policies of the GoB "achieved their intended growth objective, but the fiscal and external counts of the country have deteriorated" (IDB 2004, par. 1.6). However, according to the last national programming documents available at the time of the CSBL preparation,²¹ the GoB's expansionary fiscal policy sought to "boost economic growth through continued public sector investment in infrastructure, and promote sustainable social and economic development through continued investment in housing, education, health and other infrastructure". The GoB's fiscal objective, therefore, included a qualitative characterization of the public expenditure to be undertaken. First, the CSBL did not provide any analytical evidence on the overall impact of the fiscal expansionary policies on growth, but only showed the correlation between increasing fiscal deficits and high growth rates. In addition, the CSBL did not discuss the costs of supporting growth through fiscal expansion

in small and open economy such as Belize (fiscal multiplier). Finally, the CSBL explicitly acknowledged that the details on the expenditures of GoB during the period 1998-2003 were largely unknown, recommending an urgent revision of the public expenditures. However, this information was a fundamental basis for drawing any conclusion on the real achievements of the GoB's fiscal strategy and on their long-term sustainability. Once the public expenditure review was completed, it showed that public expenditure was not mainly driven by investments aimed at generating sustainable growth. According to the study by Glenday and Shukla (2006), the "capital expenditure has been falling during the last five years [2000-2005] and, as a result, capital expenditure has declined over the years."²² The same study identifies wages, salaries and pensions as the main destination of the Musa administration's expansionary fiscal policy.

- 2.8 **Underestimation of the Severity of the Debt Problem.** Although the CSBL properly identified the Belizean macroeconomic downturn as one of the country's key development challenges, the document underestimated the seriousness of the crisis. The CSBL included inputs from the IMF's Article IV and noted the large imbalances of the Belizean economy in 2003. The CSBL included debt figures showing the public-sector issued or guaranteed debt totaling 95.7 per cent of GDP in 2003-04 (paragraph 1.6), and the cost of debt servicing at 34 percent of government revenues in the same year, concluding that "one of the country's more pressing challenges is to tighten its public finances on a sustained basis in order to generate primary surpluses large enough to boost private sector confidence". However, the magnitude of the problem was underestimated. The debt problem was not only affecting private-sector confidence, but it was threatening the overall sustainability of the country's finances and producing a serious risk of debt default.
- 2.9 The strategy did not match the doubts raised early on by the IMF, and also pointed out by OVE's CPE, about the sustainability of government policy and about the ability of the GoB to adjust its fiscal imbalances.²³ The CSBL did not incorporate the latest events in the country, which clearly affected the prioritization and relevance of the strategic areas identified in the document. However, a note sent by the IDB country coordinator at the time to Bank's Management did include an assessment of the Belizean crisis much more in line with the IMF concerns about the plan prepared by the Belizean authorities to stabilize the debt.²⁴
- 2.10 As a result of the weak assessment of the macroeconomic situation, the prioritization of the issues was not relevant for the country's needs at the time. This is evident when one considers the prioritization of issues in the "high-lending" vs. "baseline-lending" scenarios included in the document. The strategy proposed a low-lending scenario with three projects, none of which was related to public sector finances. The Public Sector Reform PBL was instead included in the high-lending scenario, contingent on a series of public sector reforms being undertaken by the government. Furthermore, there was an inconsistency in the structuring of the low and high lending scenarios, since the main risk outlined in

the strategy that threatened the implementation of the low-lending programming included “slow public sector reforms”, the solution for which was included in the high lending scenario. In addition, it is worth noticing that the CSBL neither provided for a fiscal sustainability analysis nor identified any source of counterpart funds for the investment loans included in the “baseline-lending scenario”. The need to identify non-budget funded counterparts was clear when the strategy was prepared and strongly recommended by the IMF.²⁵

- 2.11 **Poor Identification of the Sources of the Fiscal Imbalances.** The assessment of the Belizean debt problem was particularly weak when it comes to identifying the sources of the fiscal imbalance, though many of these sources had already been identified by the IMF, OVE and the Bank’s administration. Both OVE and the IMF had clearly pointed out the need to urgently act on the public sector wage bill,²⁶ while the CSBL merely mentioned the need for “a gradual reduction in current expenditures, including the wage bill, transfers and expenditures on goods and services”.^{27,28} Surprisingly, the CSBL did not mention the fundamental role of the DFC in the financial crisis, despite being identified by the Policy Dialogue Paper (PDP), which stated that “restructuring the DFC is a priority. If not addressed effectively and in a timely fashion, this will have detrimental long-term effects on the Belizean economy and society. Absorption of the DFC’s nonperforming loans by the Government would adversely affect its efforts to maintain fiscal discipline and to serve the already large external debt of the country” (IDB 2003).²⁹ These concerns worsened during the preparation of the CSBL, as it is evident in the note prepared by the country coordinator just before the CSBL approval: “the Development Finance Corporation (DFC) has been the centerpiece in the deterioration of public accounts”.³⁰
- 2.12 **Budgeting and Accounting.** Weak accounting and budgeting systems were not explicitly considered in the CSBL as potential sources of the fiscal imbalances in the country. These problems were not properly addressed by the CSBL, although they were generally known at the time of the strategy preparation and approval. In particular, for almost ten years many donors and international institutions, including the IDB, mentioned the need for strengthening the efficiency and transparency of the public accounting system, the need for introducing a multi-year budget system and, more in general, improving the GoB’s accountability.³¹ The CSBL did not discuss the weaknesses of the accounting and budgeting system. The problem was only partially addressed under the strategic area “Improvement of the Public Sector’s (PS) Institutional Capacity to Foster the Private Sector Development”. Both of these omissions were particularly severe since these problems clearly contributed in generating the deep unbalances that almost led the country to bankruptcy.
- 2.13 The debt crises made the need for a reliable accounting and budgeting system even more urgent. In this situation, the GoB faced major difficulties in managing its fiscal policy and seemed to lose control of both revenues and expenditures. The problem clearly emerged during the political crisis of August 2004, when the seven “rebel” ministers expressed their deep concerns over the Finance Minister’s

capacity to keep under control the deterioration of public finance. The critical situation of the budgeting and accounting system was then confirmed by more recent reviews. The Public Expenditure Review (Glenda and Shulka 2006) pointed out that “the budget system in Belize lacks most elements of medium-term and performance budgeting. This undermines its capacity to deal with fiscal crisis and avoiding getting in such situation.” The report also added that “the lack of medium-term planning and budgeting exacerbates the difficulty of reprioritizing expenditure allocations”^{32,33}. Other studies carried out by the research department of the IDB showed how the need for a multiyear budget was particularly urgent for a country exposed to volatility in government revenues and prone to natural disasters (Borensztein et al. 2007). Finally, the last IMF article IV review (IMF 2008) recommended that “a multiyear budget planning should be established and a debt management office set up”.

- 2.14 **Governance.** In addition to the problems with the accounting and budgeting systems, the strategy did not cover any governance related issues, which were likely to have important implications for the development of the country and the effectiveness of the IDB intervention. In particular, the CSBL did not include any institutional analysis, lacking any assessment of the functioning of the cabinet, the role of the parliament or the situation of supervision and audit institutions. According to various sources (see for instance EIU 2004a), regulatory and legal problems were affecting the relationship between the Ministry of Finance and the other members of the cabinet. Particularly controversial were the discussions on the obligation of the Ministry of Finance and of the Prime Minister to disclose to the cabinet and to the public “all the public-sector loans, loan guarantees and government statutory boards’ obligations” (EIU 2004a). Although the GoB made some effort to improve transparency and accountability, such as the establishment of a Governance Improvement Commission in June 2004, at the time the CSBL was approved, many analysts expressed deep concerns about the lack of disclosure of public sector accounts and borrowing.³⁴ Other major ongoing reforms highly relevant for the IDB relationship with the country were also ignored, including the proposal to make the Central Bank of Belize (CBB) fully independent.³⁵ The CSBL merely mentioned a risk of “partial implementation of a broad public sector reform”, but did not mention any specific reform. Ex-post, given the series of scandals and problems that emerged during the period 2004-2008, it is clear how severe the institutional problems were and how much they affected the fiscal behavior of the country.
- 2.15 The lack of transparency and alleged misuse of public funds for private interests is probably the single most important governance issue emerging during the last programming period that was ignored by the CSBL. The transparency issue was not given special attention even in the PDP. Both the PDP and the CSBL mentioned transparency as one of the potential outcome of the forthcoming PER: “the implementation of a public expenditure review could help in this area by increasing the efficiency, transparency and targeting of scarce public resources”. However, the same PDP also claimed that “Belize has great competitive promise. It has strong and stable civil society and institutions”, which seemed to imply that

- the fiduciary risk in the country was negligible. The Belizean fiduciary risks became evident during the period under evaluation. The emergence of bad-performing loans guaranteed by SSB and granted to companies associated with the chairman of the DFC is probably the clearest example of the consequences of a lack of checks and balances in the management of public finances.
- 2.16 The transparency problems were particularly striking right before the approval of the CSBL and at the beginning of the programming period, though the low transparency and the high fiduciary risk of the country were known well before the approval of the last CSBL. Since the beginning of 2004, national and international media reported on several cases of alleged mismanagement of public funds.³⁶ These events, and other institutional considerations, had led the World Bank to stop lending to Belize because of its increasing financial and fiduciary risks. The same IDB country coordinator for Belize advised the management of the concerning deterioration of the Belizean fiduciary risk.³⁷
- 2.17 Concerns about the fiduciary risk of the Country were also raised by OVE in the previous CPE, noting that “in 2002, Belize ranked well below the Caribbean average in most of its indicators. According to the Kaufmann Index of governance, out of the sample of 16 English Caribbean countries, Belize is ranked 6th in governance, 9th in terms of accountability; 13th with respect to government effectiveness and rule of law; and 14th with respect to regulatory quality and control of corruption” (OVE 2004, par. 1.6). Led by these considerations and by the weak compliance with IDB audit activities, OVE focused one of its recommendations on the country’s fiduciary risk: “the worrying low incidence of unqualified external auditor’s reports suggests that the upcoming country strategy define specific targets within an action plan to reduce fiduciary risk realization.” (OVE 2004, page 42)
- 2.18 In this context, the weaknesses and the lack of independence of the public expenditure audit authority and Central Bank were, and still are, concerning. Particularly weak is the Supreme Audit Institution (SAI) of Belize, i.e. the Office of the Auditor General (OAG).³⁸ The OAG should be able to report directly and frequently to the parliament without the interference from politics and the executive government. For this purpose, the OAG should be endowed with adequate personnel and financial resources. None of these conditions were met in Belize at the time the CSBL was approved. The situation has not improved: as pointed out in Chapter 1, the last available AG’ report showed a four-year lag of the Belizean public expenditure audit and several other severe gaps.³⁹ The report concluded by describing a quite dramatic situation: “it is safe to say that fraud and impropriety is widespread throughout the public service. This is caused mainly by the absence of practice of internal controls outlined within the financial regulations as well as the fact that many public officers are ignorant of the procedures and relevant regulations”. The same report pointed out several limitations of the legal framework and requested a major revision to the Finance and Audit Act and other reforms including: i) to allow the OAG to undertake Value for Money audits; ii) to allow the OAG to audit all entities, which receive

- public funds, including the statutory bodies; iii) to submit the OAG's budget directly to the parliament for approval; iv) to improve the independence of the OAG by allowing the Auditor General to employ, terminate and reward staff without the interference of the GoB. In addition, as pointed out in chapter 1, the Belizean legislation does not specify any clear penalties for not complying with the financial regulations, since they are considered administrative instructions.
- 2.19 Another transparency issue which should have been identified by the CSBL is the lack of a clear regulation of the standards of conduct to prevent conflict of interest (which is still a major institutional problem). This was a particularly serious omission for a strategy that aimed at fostering the public-private sectors interactions. An assessment carried out by the Organization of the American States (OAS) at the beginning of 2006 concluded that "the standard of both the constitution and the services regulations do not specifically describe what might constitute a conflict of interest. Rather, these standards prohibit public officials from placing themselves in a position in which they have or could have conflict. Without more guidance, the Committee [OAS] considers this state to be less than adequate" (OAS 2006). The report concluded with the following recommendations: i) to establish standards and procedures for the identification of conflict of interests; ii) to establish restrictions for people who leave public service.
- 2.20 **Poor Analysis of the Private Sector Challenges.** Although background studies on the Belizean competitiveness were financed for the preparation CBSL,⁴⁰ the CSBL did not include a clear assessment of the problems that hindered the private sector growth.⁴¹ In addition, from an operational point of view, the CSBL did not make a clear effort to define the division of labor among the different IDB initiatives for the private sector development.
- 2.21 According to the CSBL the Belizean private sector was about to be affected by two main exogenous shocks: i) the elimination of tax incentives schemes for export processing zones; ii) the erosion of the benefit derived from the privileged access to the European Union and United States markets. However, the strategy provides limited information about the dimension of these problems and did not provide data on the potential socio-economic impact of the two shocks. The CBSL also identifies the six potential structural limitations of the private sector, but it does not provide further analyses of the significance of each.⁴² Interestingly, a private sector note developed for the CSBL, prioritized these issues using a survey of private sector firms. According to this survey, access to credit was the most important concern for private sector actors in Belize, followed by infrastructure. The CSBL, however, did not include this prioritization.
- 2.22 The lack of evidence on the specific private sector programs made concrete policy options difficult to specify. On the lack of economy of scale, arguably due to the small size of the country, it was not clear whether was driven by limitations on the demand, availability of inputs, or the structure of production (small and isolated producers). Similarly, the CSBL did not provide data on the productivity of

different sectors. Studies available at the time of the preparation of the CSBL pointed out that in the case of sugar, the country was not competitive in international markets in the absence of quotas that guarantee preferential access to European markets and pointed to the need to improve the efficiency of the sugar sector and the development of other products, such as papaya, shrimp or tourism as potential engines for growth. These data were not included in the CSBL. Finally, the CSBL did not accurately explore the problem of lack of financing, even though this issue was identified as the most important obstacle to the private sector development by a survey conducted by Bank in 2002. Therefore, similarly to the CSBL 1999, the strategy proposed private sector led growth, but did not contain a detailed private sector diagnostic that allows identifying priority areas.

- 2.23 **Unjustified Disengagement from Social Sectors.** The diagnostic in the section on “Promoting Human Development“ was significantly more developed than the private sector diagnostic, but the justification for not allocating resources to the challenges outlined in the section are not sufficient, especially relating to labor markets. The CSBL identified inequalities in poverty rates, with high national extreme poverty rates which were highly concentrated in the southern region of Belize. It stressed the importance of policies that improved the conditions of this particular segment of the population by arguing that “the reduction of extreme poverty by half seems difficult to attain by economic growth alone.” In its analysis of labor markets, it also noted a high regional inequality in wage rates (with a similar pattern as poverty rates), and an important increase in the stock of unskilled workers during the previous decade, mainly due to immigration. With secondary education net enrollment rates at 45 percent, it was unlikely that the skills of the working population would increase in the medium run without any policy actions. For these reasons and the high youth unemployment rate in the country, OVE recommended in the previous CPE that “the Bank and the country examine the feasibility of a program tackling the transition from formal education to labor market employment”.
- 2.24 The CSBL’s justification for no involvement in this field was that other organizations were taking leadership of the social sector, while the IDB was doing so in competitiveness and private sector development. However, while the coordination with other organizations in the elaboration of the CSBL is commendable, the areas of involvement of different donors and the relative importance of these projects were unlikely to tackle some of these problems effectively. In addition, while the World Bank was mentioned in the CSBL as planning 3 operations (including one in primary education), the World Bank’s program with Belize was stopped in 2001, so no new operations were expected to be approved.
- 2.25 The CSBL notes that the rationale for the Bank’s involvement in Belize was a “selection of a small number of high impact operations in which the Bank Group has comparative advantage and is able to mobilize additional resources from other multilateral and bilateral development agencies”, which is, in principle, an adequate strategy. However, the limited evidence presented on both the root

causes of important challenges and the impact of previous operations, makes it difficult to assess whether the Bank did in fact propose high-impact operations in those fields in which it had the comparative advantage.

C. Metric

2.26 The diagnostic problems highlighted in the previous section greatly reduced the significance of an ex-ante evaluability exercise on the CSBL. In fact, most of the gaps and inconsistencies of the CSBL result matrix were a consequence of the weak diagnostics. The fact that the strategy focused on the promotion of the private sector without providing a proper private sector diagnostic, not only led to a weak connection between the IDB's actions and the overarching development goals, but also generated a rather poor metric in terms of specificity of the indicators. Although the matrix provided some reasonable indicators at the goal level, the specific contribution of the IDB's operations to the anticipated results was never clearly identified. The confusion was also due to a rather artificial separation between "IDB targets" and "Country targets", where the former were always reduced to the outputs of the proposed activities and the latter reported the expected results of the GoB country in that area, without any indication of the Bank's role, if any, in their achievement.

2.27 Although in some cases the CSBL matrix provided for measurable baselines and targets, the overall metric was still rather poor. According to OVE's evaluability exercise the completeness index of the CSBL matrix is 0.43, which means that, in addition to the attribution problem previously highlighted, the IDB was not in the position to measure the overall performance of its planned operations. Although the CSBL mentioned the possibility of annual review actions related to monitoring, they were, however, insufficient to ensure specificity, completeness and relevance. On the other hand, there is no specific mention of evaluation activities.

D. Consistency with the Strategies of the GoB and Other Donors

2.28 The CSBL lacked a clear discussion of the areas of agreement, disagreement and the actual coordination with the GoB's medium term program, which makes it difficult to demonstrate the consistency between Bank and Country priorities. The CSBL described the GoB's objectives in general terms, (such as "consolidating the fiscal accounts, improving terms of trade, poverty reduction and hurricane preparedness"). Although from this list of general objectives it was certainly possible to infer some overlaps with the Bank program, the CSBL did not provide details on how these objectives would be achieved and, consequently, failed to demonstrate concrete coordination efforts. This omission was also partially due to the quality of the GoB's programming document. The "Medium Term Economic Strategy Paper", prepared by the GoB for the 2003-2005 period, consisted of a list of challenges and ideas of how to address them, rather than a disciplined effort to produce fundamental decisions and actions.

2.29 **Coordination with other Donors.** The CSBL covered in detail the activities of different donors in the country and the complementarities of these programs.

With the objective to maximize impact and value added, it argued that the IDB should take leadership in the private sector and competitiveness issues, leaving the social sectors to other donors (DFID, CDB and the World Bank). At the time of the approval of the strategy the World Bank had already suspended its program in Belize, which left the education sector (supposedly covered by a new World Bank project) unattended by major donors.

E. Learning from the Previous Programming Cycles

- 2.30 The CSBL did not contain a discussion of the previous program's development objectives or their current status, and thus lacked the identification and discussion of objectives achieved, pending or unlikely to be achieved. Lack of effective learning from past cycles was reflected in the absence of any action plan to improve the Bank's engagement with Belize. The effectiveness of past operations was not analyzed in depth, nor was their outcomes measured. Particularly, TC's receive a superficial treatment, despite of their importance in Belize's development agenda.
- 2.31 The CSBL only partially incorporated the recommendations of the previous CPE (see Table D4 in annex D). In particular, although OVE clearly pointed out the need for a rigorous assessment of the debt crisis, the CSBL's assessment did not fully reflect the IDB's knowledge of the situation at the time. In addition, OVE recommended the definition of a clear strategy for the private sector development, which has not yet been developed. OVE also recommended the assessment of topics such as youth unemployment and, in general, to increase the number of studies. Although the CSBL sought to improve its research effort through dialogue with local counterparts, the situation did not change significantly. Finally, OVE clearly recommended the production of an action plan to improve the monitoring of fiduciary risk. A specific action plan was not developed in the CSBL, though in the last two years auditing efforts have met the requirements of Bank policy.

III. THE BANK'S PROGRAM IN EXECUTION

- 3.1 This chapter discusses the delivery of Bank's operations during the period under evaluation. In particular, the chapter analyzes the correspondence between the program anticipated in the CSBL and the approved operations, the evaluability of Bank's operations (both new and under execution during the period), and the efficiency of the Bank's operations in Belize as they compare to the rest of the region.
- 3.2 Due to the financial constraints suffered by the country, the approved program differed significantly from what was anticipated in CSBL. None of the three anticipated investment loans were approved, and in the absence of TC operations redirected to key strategic areas, the approved program left some priorities unattended. The evaluability of Bank operations in Belize is low, both ex-ante and ex-post, mainly due to the lack of baseline measurements. In terms of execution, Bank operations in Belize tend to disburse slightly faster than the Bank's average, though projects with large contracts suffered long delays mainly due to procurement issues. Finally, compliance with auditing requirements, which was a problem in the previous programming cycle as pointed out in the previous CPE, has improved since the CSBL, after worsening in 2005.

A. Planned vs Approved Program

- 3.3 The anticipated program included three investment loans in the key strategic areas identified by the CSBL, which were not approved, as well as a series of TC and MIF operations that sought to support the GoB in these (especially Macroeconomic Stability) and other areas (mainly aimed at spurring certain private sector initiatives). The strategy only anticipated one operation in human development, the support of the development of a human resource strategy for competitiveness, which was not approved. The complete anticipated program is presented in Table B2 in the annex.
- 3.4 The changes in programming unfolded quickly with the shift in priorities, postponing the approval of new investment loans and focusing on technical cooperation projects, MIF grants, and one MIF loan for small and medium enterprises in the tourism sector. The anticipated TC were carried out, but the only loan approved was the Macroeconomic and Public Financial Sector Reform PBL, included in the "high-lending scenario". In addition to the PBL, several unanticipated TC and MIF grants were approved, a majority of which were small and, in most cases, had little connection to the priority areas identified in the CSBL 2004.
- 3.5 The adjustment of the Bank's program to the new reality of the country was timely, though not as effective as it could have been, since it failed to concentrate the limited existing resources on either contributing to fix the causes of macroeconomic imbalances (public finances management, multi-year budgeting, institutional strengthening), or to make up for lack of financing in key priority

areas identified in the CSBL. The Bank was fairly responsive to the change in needs, as shown by the approval of the macroeconomic and public management PBL in 2006, only seven months after it was approached by the country. The first disbursement was only 10 days after approval. However, in the absence of new investment loans in key strategic areas, more concentration of resources (TC/MIF) on these areas or the most urgent priorities in the country (related to public sector management), would be expected.

- 3.6 The resulting program, presented in Table B2 in the annex, was wide in scope but small in size. The key strategic areas identified in the CSBL received little funding, especially in the case of trade and competitiveness, identified in the CSBL as the main need in the country. The area of Macroeconomic stability approved and executed the PBL operation anticipated in the high-lending scenario. The TC on improving the financial capacity to manage natural disasters was not implemented. Given the need to divert resources to the fundamental area of macroeconomic stability and public sector management after approval of the CSBL, more resources should have been devoted to this area since, despite the Macroeconomic PBL, the public management reforms needed in the country were, and still are, significant. Similarly, trade facilitation and competitiveness saw the expected investment loan postponed, and no additional resources destined to this area. In tourism and the environment, however, the investment loans were substituted with two unanticipated MIF/TC operations focusing on the productivity of small and medium enterprises in the tourism sector and the development of tourism in southern Belize. In addition to these, eight unanticipated TC/MIF operations were approved during this period, covering a range of issues such as HIV/AIDS, human trafficking or an emergency grant for hurricane Dean. The total amount approved for technical cooperation projects and non-reimbursable loans was US\$4,089,824.
- 3.7 The IIC had only one project under execution during the period, a co-generation power plant by Belize Co-generation Energy Limited, which uses sugar cane as its primary fuel. The project was approved in September 2006. According to interviews with IIC specialists, the main reason for such limited engagement of the IIC, is the limited capacity of the local private sector to meet the necessary requirements for IIC operations, such as developing successful project proposals and providing audited financial statements. An alternative explanation, given by members of the private sector in Belize, is the need to strengthen the IIC and IDB's country office to serve the private sector in Belize. While it is hard to test these explanations, the relatively low number of initiated project inquiries in Belize, combined with the relatively large percentage of projects dropped suggest that both explanations might be possible and related. Between 2004 and 2008 the IIC initiated only 19 project inquiries, of which eight were dropped, five approved and six are still pending.

B. Project Level Evaluability

- 3.8 In addition to the evaluability exercise for the only loan approved in the period of analysis and with the objective to test whether evaluability of projects improved ex-post given the low level of ex-ante evaluability pointed out in the last CPE, this section includes all investment loans that were under execution during the period 2004-2008.
- 3.9 The evaluability of projects under execution in this period was low, both ex-ante (using the Loan document) and ex-post (using the PCR or last PPMR available in the system). The exception is the only loan approved during the period of this evaluation, the Macroeconomic PBL, which had clearly defined indicators, baseline and clear targets. In addition, there is no uniform improvement in evaluability ex-post, as compared with their evaluability ex-ante. Though many projects changed outcome indicators during execution⁴³, the new indicators generally did not include baseline values, though they generally improved in the establishment of clear targets, as shown in Table 7. Rarely are outcome indicators updated in the PPMR.
- 3.10 The low evaluability of the projects in Belize is mainly due to the lack of baseline information and the lack of follow-up measurements during the execution of the project. The main problem is not the availability of indicators, which in the case of Belize seems to be generally high both ex-ante and ex-post, but their adequacy and, especially, lack of measurement and reporting.

Table 7: Evaluability Ex-ante and Ex-post, by Project

			Indicators	Baseline	Target	Completeness
Macroeconomic PBL (BL-L1001)	Ex-Ante	LD	100%	100%	86%	86%
	Ex-Post	PCR	N/A	N/A	N/A	N/A
Southern Highway (BL-0001)	Ex-Ante	LD	100%	17%	17%	33%
	Ex-Post	PCR	100%	9.1%	0.0%	21.8%
Modernization Agricultural Servic (BL-003)	Ex-Ante	LD	91%	45%	82%	55%
	Ex-Post	PCR	100%	33%	100%	67%
Tourism (BL-0012)	Ex-Ante	LD	95%	14%	33%	40%
	Ex-Post	PCR	95%	14%	38%	33%
Health Reform (BL-0014)	Ex-Ante	LD	75%	25%	50%	38%
	Ex-Post	PPMR (12/06)	92%	33%	92%	52%
Hurricane Preparedness (BL-0015)	Ex-Ante	LD	90%	0%	60%	38%
	Ex-Post	PPMR (12/06)	89%	0%	67%	39%
Land Administration (BL-0017)	Ex-Ante	LD	64%	9%	0%	18%
	Ex-Post	PPMR (12/06)	27%	0%	27%	11%

Note: "Indicators" refer to the percentage of objectives established in the document that have outcome indicators associated with them. "Baseline" and "Target" indicate the percentage of these indicators that have baseline values and a clear target. Finally, "Completeness" index is a weighted average of the availability and measurement of indicators related to project objectives.

C. Efficiency of Preparation and Delivery

- 3.11 The efficiency of delivery of Bank projects in Belize is historically better than the average Bank project (Figure B3 in the Annex). However, the variability in the speed of execution varies notably by project. The Health and Land Management were notably delayed in execution, having been approved in 2000 and 1999 respectively and still under execution in 2008.
- 3.12 The executing agency's institutional capacity, problems with counter-part funding, cost overruns and procurement difficulties are the most common factors slowing down implementation in Belize, according to the PPMRs. Note that these match the issues raised during OVE's interviews with country officials, and are largely driven by two projects: Health and Land Administration II. These had significant problems with procurement processes and consultant performance, as this report explores in chapter 4. The issue of counterpart funding was especially acute in 2004. Inter-agency coordination was a concern mainly in the Health Sector Reform project, co-financed with the CDB, though these issues are less prominent in 2005 and 2006.

Table 8: PPMR Performance Issues, 2002-2006

	2002	2003	2004	2005	2006	Total
	%	%	%	%	%	%
Executing agency institutional capacity	20.0	16.7	18.2	11.8	9.5	12.3
Counterpart funding shortfall	5.0	16.7	31.8	5.9	4.8	8.9
Consultant performance	5.0	22.2	18.2	17.6	4.8	8.9
Procurement difficulties	0.0	5.6	13.6	17.6	28.6	8.9
Cost overrun	5.0	5.6	18.2	17.6	9.5	7.5
Inter-agency coordination	15.0	22.2	9.1	5.9	0.0	6.8
National policy changes	0.0	5.6	18.2	5.9	4.8	4.8
Executing agency policy changes	0.0	0.0	4.5	11.8	9.5	3.4
Borrower executing agency commitment	0.0	0.0	13.6	5.9	0.0	2.7
Community political opposition	10.0	0.0	0.0	0.0	0.0	1.4
Lack of monitoring evaluation system	0.0	11.1	0.0	0.0	0.0	1.4
Project component design	0.0	0.0	0.0	0.0	0.0	1.4
Contract condition compliance delays	10.0	0.0	0.0	0.0	0.0	1.4
Supplier contractor performance	0.0	5.6	0.0	0.0	0.0	0.7
Other	15.0	11.1	4.5	0.0	0.0	4.1

- 3.13 The issue of procurement processes for large contracts was raised during OVE's interviews with program managers. The small size of the country is a limitation in international bidding processes, which are rarely won by a local firm. The relationship between international firms, sub-contractors and the GoB has been problematic in two of the projects (Land Administration and Health Reform), leading to important delays in execution.
- 3.14 From the Bank's perspective, the cost of operations with Belize is higher than the average of Bank's operations, placing Belize closer to the Caribbean than Central America in terms of cost per million disbursed or approved. In addition, the volatility in the cost per million is very large. Since the number of operations are few and their size small, small changes in operations approved or in their pace of disbursement have very large effects on the average cost of operations. As a consequence, planning effectively a medium-term strategy is, in the case of Belize, even more important for the efficient use of resources.

Table 9: Cost of Operations in Belize, Central America and Caribbean Relative to the Bank's Average, 2003-2004

	2003	2004	2005	2006	2007
Cost per million, approval					
Belize	3.2	22.0	1.6	7.7	2.9
Central America (except Belize)	5.9	1.4	2.5	2.5	1.4
Caribbean	1.1	4.7	3.2	5.4	4.8
Cost per million, execution					
Belize	21.7	7.1	11.4	1.7	4.6
Central America (except Belize)	6.8	1.3	3.5	3.2	3.3
Caribbean	18.2	3.1	5.7	5.9	6.1

Note: Bank Average is normalized to 1

D. Bank Supervision and Fiduciary Risk

- 3.15 The Bank carried out a total of 74 missions in the 2004-2008 period (including IIC), most of which with the objective of programming and preparation. There were 10 administration and supervision missions and, surprisingly, only five missions for trust funds, TCs, MIF and small projects, which accounted for a most of the operations in Belize during this period. The number of missions increased significantly in 2007, with an increase in the missions for “Papers, Studies and Sector Notes” and “Programming”, coinciding with the start of the new strategy. The IIC carried out six missions in total during the period, four of them in 2004.

Table 10: Number of Missions by Type and Year, 2004-2008*

Mission Type	2004	2005	2006	2007	2008*	Total
Programming	3	5	5	4	0	17
Preparation	3	1	3	5	3	15
Papers, Studies and Sector Notes	2	3	0	3	0	8
Administration And Execution	3	0	0	3	0	6
Trust Funds, TCS, MIF, Small Projects	1	0	1	2	1	5
Supervision	1	2	1	0	0	4
Conference, Seminars and Learning	3	0	1	0	0	4
Other	1	1	2	5	0	9
IIC	4	1	0	1	0	6
Total	21	13	13	23	4	74

Note: 2008 as of June 2008.

- 3.16 Some problems with the level of Bank’s supervision were highlighted by the previous CPE, especially in the high number of qualified audits. The CPE recommended that special attention should be paid to this and that the “strategy define specific targets within an action plan to reduce fiduciary risk realization”. The CSBL did not include such plan, noting that the indicators had already improved by the time the CSBL was approved. The compliance did improve in 2004, but it worsened in 2005, with two out of the six audits with a “qualified” opinion from the auditor. During 2006 and 2007, there were no qualified audits, though out of the seven audits required during the period, only one was delivered on-time (only one with six months delay). Thus, despite the signs that the compliance with auditing requirements has improved, special attention should continue to be paid to the issue of fiduciary risk, especially in the context of governability and transparency in the country.

IV. RESULTS ACHIEVED

- 4.1 This chapter reviews the results achieved by the IDB's partnership with Belize. The analysis of these results is organized around the priority areas identified in the previous country strategy documents. Given the limited implementation of the program anticipated in the CSBL 2004-08, we will also include priority areas identified in previous CSBL that drove the approval of investment loans still under execution in the period of this evaluation. The resulting areas are Macroeconomic Stability, Trade Facilitation and Competitiveness from CSBL 2004, and Tourism and Social Development, identified in the CSBL 1999.
- 4.2 Summarizing the contribution of the Bank, the role of the IDB was fundamental in securing macroeconomic stability in the short and medium run, though the evidence of impact on priority areas identified in the CSBL 2004 is almost non-existent, except in the case of tourism, where we observe a positive impact of the two Bank projects (an investment loan and a technical cooperation). The lack of evidence of impacts is a combination of very limited engagement in competitiveness and trade facilitation on the one hand, and poor data availability on the other. In addition, execution delays have hurt the effectiveness of the other two major investment loans in the country Health and Land Management Program. For a more detailed assessment of the results achieved in each area, see Annex C.

A. Macroeconomic Stability

- 4.3 In early 2006, as part of the home-grown program initiated by the government in late 2004 with the intention of stabilizing the fiscal and external debt situation of the country, the government of Belize approached the Bank in search of resources in the form of foreign currency to service its external debt. In August 2006, the government announced its intentions to restructure its external private sector debt because of its acute liquidity problems; and in September 2006, it announced its failure to make scheduled payments for two bonds⁴⁴. The IDB responded quickly to the government, providing the necessary support for the debt restructuring: the PBL was approved in December 2006, after only 6 months in the pipeline, and the first tranche was disbursed on December 15th, 2006.
- 4.4 The Macroeconomic and Public Sector Management PBL was the main contribution of the IDB to Belize's economy during the period, providing timely and effective financing when it was most needed. Thanks to the debt restructuring, the government was able to modify the profile of its external debt and to reduce the short-run pressure to service it: Standard and Poor's upgraded Belize's sovereign creditworthiness from selective default to B; that is, from stating that Belize had "selectively defaulted on a specific issue or class of obligations, but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner" (on December 7, 2006), to believing that currently the country "has the capacity to meet its financial commitment [but that] adverse business, financial, or economic conditions will likely impair the

[country's] capacity or willingness to meet its financial commitments" (on February 20, 2007.

- 4.5 The conditionalities required by the Bank were intended to address some of the most pressing issues affecting Belize's fiscal position: the termination of the DFC's lending and direct investment project operations, the implementation of some of the recommendations derived from the Bank studies regarding fiscal sustainability and reforms in tax policy for the recently created oil-production industry, among others (for a complete list see Table C1 in annex C). Partly due to the urgency of the program, the conditionalities for the first tranche focused on important measures that had, for the most part, been implemented by the country by 2004.. However, the conditionalities of the second tranche could have gone farther, by focusing on longer-term reforms that are, still, much needed in the country.
- 4.6 The Bank might have lost an opportunity to negotiate with the government more profound reforms as part of the second tranche of conditionalities attached to the PBL. The country is still very much vulnerable to adverse financial and economic situations. Moreover, the PBL did not address all the structural flaws that led to the crisis: the institutional framework is weak and accountability and governance issues are a major factor in Belize and key in explaining the conditions that led to the crisis.
- 4.7 Finally, although the Bank effectively supported the Belizean authorities in addressing the DFC problem, it also lost the opportunity to address in a systematic way the problem of financing for development in Belize. The evidence clearly showed that after 1999 the DFC's financing was not used for developmental purposes and that the problem of lack of credit supply for SMEs and less developed sectors needed to be addressed.⁴⁵ The Bank did not fully comply with its commitment to address this problem and to explore potential solutions.⁴⁶ In particular, the Bank did not carry out a detailed assessment of the root causes of the lack of credit supply for SMEs and, therefore, did not make a significant effort to identify the best mechanism to improve access to credit. In fact, the provision of public funding should be considered only if the assessment shows that the credit problem is due to a lack of private savings. In that case, preference should be given to a second-tier funding system. Alternatively, if the lack of credit supply comes from the banking sector perceiving borrowers as too risky, or from existing difficulties to enforce debt contracts, the creation of credit bureaus should be considered. Finally, other solutions aimed at increasing the efficiency of the financial sector should also be examined.

B. Tourism and Environment

- 4.8 The Bank's intent in this development area was to "improve tourism related infrastructure, incorporate new archeological sites while preserving the quality of natural environment" and to "enhance disaster preparedness and mitigation". As previously pointed out, the two major anticipated actions in this areas, i.e. the two

investment loans “Program for Sustainable Tourism” and “Solid Waste Management”, were not approved. However, the IDB still provided some support to the country concluding the execution of previously approved operations and providing technical assistance.

- 4.9 **Tourism.** During the period under consideration, the “Tourism Development Project” (BL-0012) and the “Ecotourism Training Program” (TC9902062) were completed, and two additional MIF grants were approved: the “Improving Small Business competitiveness in the tourism industry” (BL-M1001) and the “Tourism and HIV/AIDS: Capacity Building in the Tourism sector”.
- 4.10 Through the “**Tourism Development Project**” (TDP), the Bank assisted Belize in developing important archeological sites to promote tourism in the country. The general objective of the TDP was to “increase employment opportunities, foreign exchange earnings and government revenues from tourism in a manner which is environmentally and archeologically sustainable.” Although the development of these archeological sites has supported the development of the tourism sector in the country, the exact contribution is not measurable. In a context where Belize saw a large increase in tourist arrivals, the targets included in the original logical framework (related to the absolute increase in tourist arrivals) were achieved and exceeded, though it is not clear how much these results can be attributed to the TDP. The number of visitors and the revenues of the sites financed by the Bank have increased over time. However, although the market share of the IDB-financed sites in terms number of visitors always accounted for around 90 percent of the total visitors between 2001 and 2006, their market share in terms of revenues has decreased from 90 percent in 2001 to 53 percent in 2004. In addition, a strong reduction in the number of visitors at the Altun Ha site occurred in the last two years.⁴⁷
- 4.11 The TDP suffered implementation and supervision problems, thus some planned activities were not completed.⁴⁸ According to the Bank reporting,⁴⁹ these execution problems were mainly due to the composition of the Project Executing Unit (i.e. two archeologists and one accountant) and, in particular, to the absence of a tourism expert and a construction engineer.⁵⁰ This unbalanced composition of the Project Executing Unit (PEU) seems to have shifted the project focus from tourism development to the excavation and consolidation of the archeological monuments. As a result, the project financed up to 25 percent non-planned archeological activities at the expense of touristic infrastructure and local community development projects.⁵¹ These execution shortcomings might threaten the sustainability of the program, since the absence of proper tourism infrastructure might affect the attractiveness of the archeological sites.
- 4.12 In addition to the TDP, the Bank supported the tourism sector through the “**Eco-Tourism Training Program**” (ETTP). This program developed the curricula for training in the tourism sector, and provided training to trainers who would, subsequently, provide courses under the supervision of Belize Tourism Industry Association (BTIA). Similarly to the TDP, the project exceeded the targets

established in the logical framework since the main indicator used for measuring the program's objectives was the number of tourist visits to Belize. However, tourist arrivals depend on a number of factors unrelated to the program, and given the lack of data on beneficiaries and client satisfaction surveys, the contribution of the program to the increase in tourist arrivals cannot be estimated.

- 4.13 The main impact of the program - according to interviews with BTIA administrators carried out in Belize - was the development of the curricula and standards for eco-tourism programs across the country, noting that before implementing the technical cooperation there were no formal courses targeting the tourism sector. Relying on the growth of formal training programs sprouting from the technical cooperation, an evaluation carried by OVE using the Labor Force Survey (see Annex D) found that beneficiaries of training had 25 percent higher incomes than comparable non-beneficiaries working in the tourism industry. Thus, to the extent that the program created the basis for the development of most tourism training programs in the country, the impact of the program is positive and large. However, despite its success, according to BTIA officials, the sustainability of the program will depend on the ability to implement co-payment schemes in the future.
- 4.14 **Environment.** Given the problems in developing the planned program, the rather ambitious IDB plan in the environmental area resulted in the completion of the Country Environmental Analysis (CEA)⁵² and the preparation of series of studies for the preparation of the Solid Waste Management operation, which eventually was not financed.
- 4.15 The CEA main findings pointed out that the dependence of the Belize's economic system (based on tourism and agriculture) on its natural resource-base will continue for the next two or three decades. According to OVE's review, the study fulfilled the technical requirements and common practice of these types of environmental assessments. It included valuable information about the links between the environment and competitiveness and sustainable development in the country.

C. Natural Disasters

- 4.16 During the period under consideration, the Bank intervention in the field of natural disaster preparedness was limited to the completion of the Hurricane Rehabilitation and Disaster Preparedness Program (BL0015). The program financed the construction and rehabilitation of shelters for both rural and urban residents fleeing from hurricanes, and assisted the GoB's institutional capability for facing emergencies due to natural disasters. The project financed the construction of three (of five planned) regional shelters and the retrofitting of 218 existing shelters, 169 of which were reinforced to withstand at least a category three hurricane.⁵³

- 4.17 As already pointed out by the previous CPE (OVE 2004), the program execution suffered several problems in the construction component which affected the program's capacity to eventually achieve the planned target. Due to the construction delays at first, then due to the fiscal constraints, at least two of the originally planned regional shelters were not completed.⁵⁴ Particularly worrisome is the postponement of the regional shelter in the Toledo District, which was supposed to serve poor population of southern area. A major source of concerns is the quality of the renovated and newly constructed shelters. The original project design provided for the construction of regional shelters capable of withstanding category-five hurricanes. Although the information provided to OVE confirmed that the new regional shelters should comply with these standards,⁵⁵ these new buildings did not fulfill the unattended need for shelters' capacity in case of a category-five hurricane.⁵⁶ In addition, the project financed the improvement and expansion of the water and sewage systems and the improvement and construction of new canal drainage infrastructures in Belize City. Finally, two public piers were repaired and reinforced in Caye Caulker and San Pedro.
- 4.18 With regard to the institutional strengthening activities, although the program effectively supported the consolidation of the National Emergency Organization (NEMO), it also experienced some shortcomings due to governance problems. According to the PCR, the improvement of the National Building Standards and the institutional strengthening of the Belize City Council (BCC) were not executed. In the former case, the activity was deferred because of budget constraints and, although the legislation was eventually passed, many concerns remain about its enforcement; in the latter, the institutional strengthening of the BCC was not executed because of a dispute between the GoB and the Belize City administration on budget issues and the unavailability of the BCC to dedicate the human resources required for the project.
- 4.19 In summary, although the area of natural disaster preparedness has significantly benefitted from the IDB support, the sustainability of the achieved results is an issue of great concern, and some gaps need to be urgently filled. Building a category-five resistant regional shelter in Punta Gorda is certainly a priority: this urgent need was clearly confirmed by the hurricane preparedness exercise carried out by the Joint Civil Military Co-operation Group (CIMIC) of the British Armed Forces in 2006.⁵⁷ The maintenance activities should be accurately planned and budgeted to guarantee the sustainability of recent construction and consolidation works. Other recommendations of the CIMIC report (CIMIC, 2006) should also been implemented. These include the improvement of the evacuation plans, the provision of communication equipment and the revision of the shelters' capacity. In addition, the building regulation should also be reviewed by improving the enforcement of the building codes and considering the introduction of comprehensive zoning laws (see Usher 2008).
- 4.20 The only additional IDB contribution to the area of natural disasters preparedness has been a study carried out the Research Department on the debt sustainability under catastrophic risk (Borensztein et al. 2007). The paper examined the

vulnerability of Belize's public finance to the occurrence of hurricanes and it explores the potential benefits of insurance instruments aimed at reducing such vulnerability.

D. Agriculture

- 4.21 In the agricultural sector, the objective of the 1999 CSBL, under which the Land Management Program (LMP) was approved, was to “prepare the agriculture sector for globalization while promoting adjustments in the economy as preferential trade agreements phase out”. The Bank's involvement in the sector has been significant, consisting of three investment loans.
- 4.22 The “**Land Administration II**” (BL-0017) was a follow up operation to the previous “**Land Administration I**” (BL-0007), and had as its objective “to improve the enabling environment for private and public sector development through enhanced land security, effective land markets, and the promotion of a coherent land policy framework contributing to sustainable development and efficient use of land resources”. In effect, the project financed mainly the creation of a unified national cadastre and property rights registration.
- 4.23 Although the contribution of the program to changes in the indicators outlined in the logical framework cannot be established empirically due to data limitations, there are vast improvements in stamp-duty and taxes paid on land since project inception (more than 200 percent), which points to a likely positive effect of the land registration component. Mortgages have not increased, but that might be due to problems with access to capital that the country has experienced since 2005. The long economic impact of the program is likely to be large, though its long-run sustainability would depend on the completion of the unification of land registry systems now under operation into a single system, which has been done for the three districts surveyed under the project.
- 4.24 The project had difficulties in the execution of component 1 (surveying and mapping) due to problematic performance of contractors and procurement issues. Somewhat surprisingly, the component has been rated as “satisfactory” in all PPMRs, despite noting existing difficulties and stating that some activities would not be completed (tenure clarification and registration in Belize District, or adjudication and registration of urban parcels in Belize City). According to program administrators, the delays in execution were due to the problems with the firm contracted to conduct the surveying and mapping. These problems led to the decision to complete surveying and mapping of two out of the three planned districts by the firm awarded the contract, and the continuation of the work by local contractors.
- 4.25 Though the economic impact of the program is likely to be large, its long-run sustainability would depend on the completion of the unification of land registry systems now under operation into a single system, which has been done for the three districts surveyed under the project. In interviews conducted by OVE,

Government officials argued that the project was too complex, including too many activities and trying to achieve too many goals. In addition, as OVE anticipated in the previous CPE, the Loan Document did not address important risks with the original design, such as the traditional land tenure conflict in Toledo and border discussions, which prevented the implementation of the surveying in the poorest, rural, district of Toledo. The village boundaries component could also not be implemented due to difficulties in overcoming conflicts in border definitions of villages.

- 4.26 **Modernization of Agricultural Health.** Among the Bank’s interventions in the rural sector, the “Modernization of Agricultural Health” project (BL-0003) completed its execution in 2005, almost six years after its approval. The objective of the project was to “enhance the competitiveness of Belize’s agricultural products, especially in foreign markets; to create systems of quality control that will meet the import requirements being developed by WTO member states; and to provide more efficient services with a minimum increase in the Government’s current level of expenditure in agricultural health”. This was pursued through the strengthening of the animal and plant health services based on the creation of an independent institution, BAHA (Belize Agricultural Health Authority), and with increased participation of the private sector.
- 4.27 The project did not establish outcome indicators, nor baselines or targets, and even most of the output indicators defined in the loan document turned out to be inadequate. This could be explained both by a lack of updated agricultural data for the country (which is an ongoing challenge for the sector) and design inaccuracies. However, it is undeniable that the project has had important achievements. Not only has BAHA been created and the necessary laws and regulations passed, but also many of the expected outputs have been delivered (laboratories equipped; BAHA staff and producers trained; quarantine facilities constructed or rehabilitated and better equipped).
- 4.28 In terms of results achieved, the private sector in Belize recognizes significant improvements in the agricultural health field since BAHA became an independent institution, which was the basis of the IDB project. Not only this, but BAHA’s model is appreciated and closely followed by other countries in the region, as well as by the main international agencies that work in the field (IICA, OIRSA). In fact, the strong coordination among the IDB and these agencies, that characterized both the design and execution of the project, has been a key factor that contributed to the results achieved.
- 4.29 The main concern facing BAHA (and therefore the project’s achievements) is the sustainability of its model. Around 60 percent of BAHA’s budget comes from user fees, which is clearly above the average in the region and is causing some agricultural sectors –particularly those who are not exporters– to complain about the fees burden. What is more, GoB subventions have been decreasing since BAHA’s creation, adding extra pressure on BAHA’s budget and preventing some needed activities and investments to be implemented⁵⁸.

E. Social Sector Development

- 4.30 Originally planned as a four year program, the “**Health Sector Reform Program**” (BL-0014) was approved in 2000, under the previous CSBL, but continues its execution after two extensions. The objective of the program was “to contribute to improving the health status of the population”, through financing the i) restructuring of the health sector (mainly separation of health care service provision and financing and decentralization of operational authority to four health regions), ii) the rationalization of services through construction and rehabilitation of infrastructure and medical equipment in three hospitals, and iii) the establishment of the National Health Insurance fund. The last component, however, was not executed through the program, but with GoB’s own funds.
- 4.31 The project had important execution delays, especially with the second component of the project: rehabilitation and construction of infrastructure. Problems with cost-overruns, consultant performance and different procurement practices between the IDB and the CDB were the reasons for such delays cited in the PPMR, as well as in conversations with government and Bank’s officials. The same officials also argued that the project was too ambitious and the implementation of the components not properly sequenced. They argued that the reshuffling of health care provision from six district hospitals to four hospitals in the new “health regions” was done without the regulatory framework in place. Although the proper sequencing of these types of reforms has not been unquestionably established in the literature, the decentralization of services to four health regions that did not correspond to the six districts and the drastic change from public provision to performance-based contracting present considerable challenges in such a small country, which, in addition, is still developing its institutions⁵⁹.
- 4.32 The results of this program are difficult to establish empirically. Although only some outcome indicators proposed by the project met their intended objectives, these indicators were too numerous and measured health outcomes at the national level, which could be driven more by economic conditions than health sector performance. Nevertheless, the project is near closing and the construction and rehabilitation of infrastructure are almost complete. A pilot project carried out in the Southern Districts and Belize City for outsourcing the provision of primary care through performance-based contracts showed that pilot areas had lower cost per visit and better performance than non-pilot areas with public provision, according to a survey of patient satisfaction. In addition, out-of-pocket payments were reduced from 60 percent to 25 percent of total spending, and access improved.
- 4.33 Despite these positive results, the sustainability of the reforms is not guaranteed. As noted in the PPMR (February 2008), “there is overall concern about the sustainability of the activities initiated under this operation, particularly related to financing the operations of public health facilities and the National Health Insurance (NHI)”. There is no clear mid-term financing scheme for the NHI or

maintenance of infrastructure and equipment. The regulatory framework which legally establishes the health regions was ready prior to the 2008 election, but it has not yet been approved, which will likely affect plans for sustainability of the reforms implemented under the project.

- 4.34 In addition to the health sector reform project, the Bank financed three technical cooperation projects in the social sector: Combating Human Trafficking, Strengthening the National AIDS Commission, and HIV/AIDS and Tourism. The TC projects were important, targeting very specific needs for Belize that are likely to gain importance with increased tourism activities. Of particular relevance was the TC to reduce Human Trafficking, since it allowed Belize to move up to tier 2 in the Trafficking in Persons report carried out by the US State Department, thus avoiding potential sanctions for lack of effort in combating human trafficking.

F. Trade Facilitation and Competitiveness Enhancement

- 4.35 In the area of trade and integration, in 2005 the IDB provided technical cooperation to improve the capacity to negotiate the Free Trade Area of the Americas (FTAA) (BL-T1002). Activities included improving the knowledge of trade officials, private sector coordination and addressing information asymmetries. According to the OVE interview with the Belizean authorities, the technical cooperation was beneficial and allowed the involved officers to improve their technical skills. However, the authorities also stated that the area of trade and integration still lacks financial and human resources. In 2007, a background study was executed (BL-T1008) to explore the feasibility of improving the competitiveness of Belizean beef exports, with a particular focus on responding to growing demand in Central America and Mexico.

G. Private Sector Capacity-Building and Specific Initiatives

- 4.36 The private sector capacity building included a Business Climate Assessment, Forum on Competitiveness, Mentoring model to develop young entrepreneurs, institutional strengthening of credit unions airport security and public utilities commission.
- 4.37 The “Mentoring model to develop young entrepreneurs” is a MIF loan which had the objective to “to increase employment opportunities and generate income for young people interested in becoming entrepreneurs who typically have difficulty obtaining from other sources”. The project provides financing and business coaching to young entrepreneurs with a promising business idea. The program aims at solving problems of access to capital for these entrepreneurs, who are not targeted using socioeconomic-status, but by the quality of their business idea. The program will finance a total of 80 businesses, measuring its success by the number of jobs created, the existence of these businesses three years after their creation, and the complete repayment of their loans in the stipulated time. Future plans for sustainability include the possibility of using venture capital to finance business ideas, or providing business coaching services for a fee, in addition to

- the public subsidies that might be needed to sustain it in the long run. The project is now starting to finance business ideas. However, the model should be evaluated properly, as it might be replicable at a larger scale, especially given existing limitations in access to credit.
- 4.38 The technical cooperation to strengthen the Public Utilities Commission was generally successful, although the impact on the efficiency of public utilities regulation is not clear. The TC financed numerous studies on potential changes in the regulation, most of which have not yet been approved. According to officials from the Public Utilities Commission, the results of this institutional strengthening will be apparent in 2009-2010, when some of these new regulations will be in effect. One of the issues highlighted by the same officials was the high turnover in the PUC's staff, especially transitioning from the commission to the private sector, which may limit the effectiveness of training components of these programs. The Airport Security technical cooperation was successful in assisting the country in the implementation of the Aviation Security Act, replacing operating rules established before independence. The new procedures are more in line with international standards, and jointly with the expansion of the Belize City international airport might facilitate increases in tourism traffic.
- 4.39 In September 2006, the IIC provided financing for the development, construction, and operation of a 31.5 MW name plate capacity co-generation power plant by Belize Co-generation Energy Limited. The project total cost was US\$62, of which the IIC provided US\$6 million (9.7 percent of the total investment). The 27.5 MW biomass facility will burn sugar cane fiber as its primary fuel during both the in-crop period and the out-of-crop period (August – November). Belcogen is expected to generate enough electricity to meet 22 percent of national electricity demand, reducing reliance on fossil fuels. In addition, it will have positive externalities in the sugar industry, which will face difficulties with the erosion of preferential trade agreements by the European Union.
- 4.40 Finally, the Bank provided assistance for reconstruction and rehabilitation after Hurricane Dean (BL-T1021), which according to the Belize Red Cross (executing agency) was effective, though somewhat slow to disburse for an emergency response. The time for disbursement was two months.

REFERENCES

- Borensztein E., Cavallo E. and Valenzuela P. (2007), *Debt Sustainability under Catastrophic Risk: the Case for Government Budget Insurance*, RES Working Paper, 607, Inter-American Development Bank, Washington D.C.
- CIMIC (2006) “Report of ‘Pelican Storm’. A Hurricane Preparedness Tabletop Exercise”, August 2006,
http://www.nemo.org.bz/publications/2006_UK_Joint_CIMIC_Report.pdf
- Devoto (2006), *Belize: Poverty and Economic Sector Performance*, Economic and Sector Study Series, Region II, Inter-American Development Bank, Washington D.C.
- Dye, K. M. and Stapenhurst, R. (1998), *Pillars of Integrity: the Importance of Supreme Audit Institutions in Curbing Corruption*, Working Paper of the Economic Development Institute of the World Bank, Washington D.C.
- DFID (2003), *Addressing the Impact of Preference Erosion in Sugar on Developing Countries*, Oxford Policy Management and LMC International Ltd, September 2003, London,
- DFID (2004), *Addressing the Impact of Preference Erosion in Bananas on Caribbean Countries*, NERA Economic Consulting and Oxford Policy Management, August 2004, London,
- EIU (2004a), *Belize: Country Report*, The Economist Intelligence Unit, August 2004, London.
- EIU (2004b), *Belize: Country Report*, The Economist Intelligence Unit, November 2004, London.
- EIU (2005), *Belize: Country Report*, The Economist Intelligence Unit, February 2005, London.
- Glenday, G. and G. P. Shukla (2006), “Belize: A Review of Public Expenditures” IDB, Economic and Sector Study Series, RE-06-018, Inter-American Development Bank, Washington DC
- GoB (2002), *The Medium Term Economic Strategy Paper 2003-2005*, Government of Belize, Belmopan.
- GoB (2005), *Finance and Audit (Reform) Act*, , Government of Belize, April 2005, Belmopan.
- Hulse, M. C. (2007) *Forensic Accounting Investigation of the Development Finance Corporation*, Mimeo.

- Hausmann, R. and Bailey K. (2007), *Growth Diagnostic*, Center for International Development Harvard University, Cambridge, MA.
- IDB (2003), *Belize: Towards Sustainable Growth and Competitiveness*, Policy Dialogue Paper, Regional Operation Department II, Washington D.C.
- IDB (2004a), *IDB Country Strategy with Belize*, GN-2320, Regional Operation Department II, Washington D.C.
- IDB (2004b), *Belize: Macroeconomic and Political Crisis*, Briefing Note to the President, Mimeo, Inter-American Development Bank, Washington D.C.
- IDB (2005), *Belize Country Environmental Analysis: Towards Competitiveness and Sustainable Development*, Inter-American Development Bank, August 2005, Washington D.C.
- IMF (2003), *Belize: Staff Report for the 2002 Article IV Consultation*, International Monetary Fund, Washington D.C.
- IMF (2004a), *Belize: Staff Report for the 2003 Article IV Consultation*, International Monetary Fund, Washington D.C.
- IMF (2004b), *Assessment of the Supervision and Regulation of the Financial Sector: Review of Financial Sector Regulation and Supervision. Belize*, International Monetary Fund, Washington D.C.
- IMF (2008), *Belize: Selected Issues*, IMF Country Report No. 08/92, International Monetary Fund, Washington D.C.
- Lall, S (2003), "Strengthening Export Competitiveness in Belize", Inter-American Development Bank, Washington D.C.
- Jenkins, G. P. and C. Kuo (2006), "Fiscal Adjustment for Sustainable Growth in Belize" IDB, Economic and Sector Study Series, RE-06-020, Inter-American Development Bank, Washington D.C.
- Nicolas, O. G. "Audit profile: Office of the Auditor General of Belize," International Journal of Government Auditing, April 1997
- OAS (2006), *Final Report on the Implementation in Belize of the Convention the Inter-American Convention against Corruption*, Report of the the Committee of Experts, Washington D.C.
- Nogales, X. (2006), "Belize: Unattended Loan Demand and Proposed Remedial Action", Mimeo, Inter-American Development Bank, Washington D.C.
- OAG (2007), "Report of the Auditor General for the Year April 2006 to March 2007", Office of the Auditor General of Belize, Belmopan City

- OVE (2004), *Country Program Evaluation (CPE) Belize 1993-2003*, Office of Evaluation and Oversight, Inter-American Development Bank, Washington D.C.
- OVE (2006), *Health Sector Evaluation: 1995-2005*, Office of Evaluation and Oversight, Inter-American Development Bank, Washington D.C.
- OAS (2006), *Mechanism for Follow-up on the Implementation of the Inter-American Convention against Corruption. Belize: Final Report*, Organization of the American States, Washington D.C.
- Pesaran, M. H., Y. Shin, and R. P. Smith. 1997. Estimating Long-Run Relationships in Dynamic Heterogeneous Panels. DAE Working Papers Amalgamated Series 9721.
- Pesaran, M. H., Y. Shin, and R. P. Smith. 1999. Pooled Mean Group Estimation of Dynamic Heterogeneous Panels. *Journal of the American Statistical Association* 94(446): 621–634.
- Sanigest solutions,(2007), *Belize National Health Insurance Roll-out, Situation Analysis*
- Stanbury, W.T. (2003), “Accountability to Citizens in the Westminster Model of Government: More Myth than Reality.” Fraser Institute Digital Publication, February 2003.
- Taylor, D (2002), “Strengthening Belize’s Export Promotion and Investment Attraction Programs: An Action Plan for the Implementation of Export and Investment Plans and for Capacity-Building in BELTRAIDE,” Inter-American Development Bank, Washington D.C.
- Usher, K M., « Natural Hazard Mitigation Strategies in the Continental Caribbean: The Case of Belize », *Études Caribéennes*, 7/2007, 4 février 2008. URL : <http://etudescaribeennes.revues.org/document324.html>. Consulté le 12 novembre 2008.
- Woods, L., J. Perry, and J. Steagall, “The Composition and Distribution of Ethnic Groups in Belize: Immigration and Emigration Patterns, 1980-1991.” *Latin American Research Review*, Vol. 32, No. 3. (1997), pp. 63-88.

ENDNOTES

¹ According to the World Bank's governance and anti-corruption indicators, Belize scores in the “voice and accountability”, “political stability”, “government effectiveness”, “regulatory quality” and “control of corruption” indicators worsened significantly in the last decade, and especially in the 2003-2007 period. Belize ranks below the average in “government effectiveness” and “regulatory quality”. The only indicator that did not worsen during the decade is the “rule of law”, though it experienced a decline in the 2003-07 period after an improvement in the 1998-2003 period. For more details on these rankings, see <http://info.worldbank.org/governance/wgi/>.

² Debt figures correspond to external obligations of public debtors including the national government, political subdivisions (or an agency of either), and autonomous public bodies and any publicly guaranteed debt by a public entity. Figures come from the Global Development Finance dataset and the Central Bank of Belize.

³ Nogales (2006).

⁴ Paragraph 5.3.4.8. from the *Forensic Accounting Investigation of the Development Finance Corporation* presented by Mark C. Hulse in July 2007.

⁵ According to the forensic investigation, the Belize Mortgage Company 2002-1, a wholly DFC-owned Cayman Island tax-exempted company, was created in 2002 for the sole purpose of issuing collateralized bonds (mortgage-backed securities) in the United States.

⁶ This analysis is based on models estimated by OVE using the pooled mean-group estimator proposed by Pesaran et al. (1997, 1999) and a vector auto regressive model. The pooled mean-group model explains deviations from the long-run equilibrium, which we assume common for Latin America as a whole, and country specific short-term dynamics in Belize.

⁷ These figures, however, need to be interpreted cautiously. During the same period, current expenditure grew 4.5 percentage points of GDP. As pointed out by the Public Expenditure Review (PER) carried out by the Bank, figures for capital expenditures are inflated due to the misclassification of current expenditures as capital expenditures. Since one of the objectives associated with a PBL approved by the Caribbean Development Bank (CDB) was to strengthen the “expenditure management system (planning, budgeting, and expenditure control systems)” the increase in current expenditures, which was driven mainly by “goods and services” and “subsidies and current transfers” might be due to improvements in expenditure classification —according to the PER, “transfers” were often included in capital expenditures. Other items listed under current expenditure like “wages and salaries” and “pensions” have hardly changed between 2003 and 2007 as a percentage of GDP which might also hint that reclassification is the most likely explanation for the increase in current expenditures

⁸ For comparison purposes, during 2006 Mexico produced 3,707,200 bpd and Venezuela 2,802,700 bpd according to the EIA.

⁹ The growth diagnostic report argues that other factors, like the tax system or education, though important, are not binding constraints to growth at the moment. Belize’s tax environment is one of the lowest in the region —30.8 percent of total taxes as percentage of profit and only above Chile with 25.9 percent and Surinam with 27.9 percent. It enjoys low inflation and low exchange rate risk and, according to the Doing Business Reports, its regulatory environment is ranked better than most Latin American and Caribbean countries —only surpassed by Chile, México, and Peru and some Lesser Antilles. On infrastructure, they note that it might become a drag on growth in the future. Regarding investment ideas and the sophistication of the export basket, the diagnostic states that Belize has a low level of export sophistication “because it has not kept pace with the upgrading of the export basket observed in other countries”; but that it has significant potential for expanded investment in tourism and agriculture. And because these sectors are already the most important in Belize they do not require an extra coordination effort. Branded as a nature-based tourist destination —with the world’s second largest coral reef (after the Great Barrier in Australia), rainforests, and many Mayan archeological sites— there is a large potential for growth in stay-over eco-tourism which generates more revenues and employment than cruise tourism —US\$653 vs. US\$44 on average per visit, and 90 percent vs. 10 percent jobs in the tourism industry. Moreover, the rapid growth of cruise tourism —the fastest in the Caribbean from 2000 to 2005— has put extra pressure on the environment since the ceiling on passengers’ disembarks had been constantly revised upward and limits on

parks and sites visitors constantly violated. According to a report prepared by the Center on Ecotourism and Sustainable Development, in 2006, “Belize’s cruise tourism is on an untenable course.”

¹⁰ For an assessment of the Westminster system see Stanbury (2003).

¹¹ Regarding the Auditor-General, Nicolas (1997) stated that the independence of the audit functions is limited in Belize by constraining factors such as the fact that “[t]he appointment, fixing of salary, transfer and discipline of staff is vested in the Public Services Commission” (in 2001 the Government prepared the Fourth Amendment to the Constitution indicating, among other changes, that the Auditor-General was to be appointed on the recommendation of both Houses of the National Assembly, his salary also set by this body) and that “[t]he Auditor General’s budget is subject to executive allocation and review.

¹² The Finance and Audit Reform act states that “if at any time it appears to the Auditor General that any fraud, or serious loss or serious irregularity has occurred in the receipt, custody or expenditure of public moneys or in the receipt, custody, issue, sale, transfer or delivery of any stamps, securities, stores or other Government property of any kind whatsoever, or in the accounting for the same, he shall immediately bring the matter to the notice of the Minister.”

¹³ According to comments sent by the GoB “the Auditor statement is being challenged as all the commercial debt source documents and transaction records were in fact readily available in the lead up to the 2007 debt restructuring. Furthermore, all the GOB Bonds Offerings were approved by parliament”.

¹⁴ Standard and Poor’s assigned a “Selective Default” rating to Belize on December 2006. According to its rating definitions, a “Selective Default” rating is assigned “when Standard & Poor’s believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner.”

¹⁵ The term *creole* is used in Belize to designate people of African or European descent or both who were born in America but whose ancestors come from another continent. The Garinagu people are the descendent of African slaves who survived the sinking of a Dutch slave ship in 1635 and who settled in St. Vincent and merged with the indigenous Carib population of the island. They were later exiled in the Bay Islands off the coast of Honduras and from there migrated to the Caribbean coast of Central America.

¹⁶ Woods et al. (1997), pp. 63-88.

¹⁷ Enrollment rates reported by UNESCO differ from those reported by the Ministry of Education due to different definitions of the “school age” population.

¹⁸ Note that by using the secondary school exit exam as a proxy for school quality we are likely underestimating differences in school quality by district, since only those students who are present in the last year of secondary take the exam.

¹⁹ Data on access comes from *Belize National Health Insurance Roll-out, Situation Analysis*, Sanigest solutions, 2007.

²⁰ The National Oceanic and Atmospheric Administration (NOAA) archives show nine category-five Hurricanes in Belize from 1851 to 2007. The number of events is measured as storms in the H3-H5 category moving within a 100-nautical-mile radio from Belize City and Nassau, respectively. Category 3 hurricanes experience wind speeds between 111 and 130 miles per hour (mph), category 4 hurricanes experience wind speeds between 131 and 155 mph, and category 5 hurricanes experience wind speeds of more than 155 mph.

²¹ The Medium Term Economic Strategy Paper 2003-2005 (GoB 2003).

²² The same study concludes that “over the recent years, however, particularly since 2002/2003, current expenditures have risen because of the marked increase in wages, pension and interest expenditures.” And, it also concludes that “the capital budget has operated in sharp contrast to the current budget. It has been volatile and undisciplined. Capital expenditures have contained more than expenditures on physical capital formation or even institutional and human capital development projects. Miscellaneous and irregular current expenditures and transfers have also been included”.

²³ The executive summary of the IMF Article IV 2004: “The [IMF] staff supported the proposed tightening of policies, but questioned the consistency of the authorities’ fiscal plan. The authorities’ revenue measures appear likely to fall significantly short of their estimated yields and staff recommended a broader range of revenue and expenditure measures. The staff also urged authorities to act swiftly and to sustain their adjustment efforts, pointing to the comprehensive but short-lived policy adjustment undertaken in 2002” (IMF 2004, page 4).

²⁴ The final version of the briefing note “Belize: Macroeconomic and Political Crisis”, was sent to the Manager of Region II on August 27 2004 (IDB 2004b). The note stated that “concerns remain on the

prospects for achieving a sustainable fiscal position [...] the tax measures announced for FY 2004/05 are likely to fall short of projections due to the difficulties in levying a new land tax in a short period of time as well as the lack of buoyancy of the tax regime which has resulted from widespread long-term tax exceptions". The note also added that "the situation is forcing the authorities to postpone the third global bond offering. Although the authorities announced that the third global bond issue was postponed due to the current volatility in the international markets, Bear Sterns stated that its size (US\$ 225 million) has led serious questions about the country's debt profile and its fiscal accounts". At the time of its approval, these developments considerably weakened the relevance of the strategy as a guide for the Bank's involvement in the country.

²⁵ In this regard the same CSBL stated "The Bank's efforts in securing concessional resources have reduced counterpart requirements, an aspect of relevance under current fiscal restrictions and the indebtedness situation of the country. Efforts should continue to identify additional co-financing, not only to meet counterpart requirements for future operations but especially as one of the best avenues to coordinate actions and avoid overlapping of activities" (IDB 2004a par 2.17). In addition, the article IV 2003 strongly suggested "limiting the budget-financed investment: capital outlays would be reduced in line with authorities' projections, but should also focus on limiting budget-financed investment projects to the completion of those currently in progress, while new investment projects could be financed by foreign donors and multilateral agencies" (IMF 2004a).

²⁶ Among the measures the 2003 IMF article IV included: "Freezing current outlays: [...]. This would include a freeze in the public sector wage bill, which would require a review of the current public sector wage agreement and the level of public sector employment" (IMF 2003, par. 16). OVE CPE stated: "The wage bill has been the largest non-interest expenditure item object in the Government budget, followed by interest payments and pensions [...]. In 2003, the Government granted a new salary increase of 8 percent for junior public officers, teachers, defense force and police, and a 5 percent increase for senior staff" (OVE 2004a, par. 1.36 and note 46).

²⁷ The CSBL also mentioned the public sector wage bill among a list of other problems that the GoB needed to face.

²⁸ The public wage bill problem was also pointed out by the Economist's Intelligence Unit (EIU) in its report published in August 2004: "The government has said it will pay public servants salary increases of 5-8 percent in 2004 and 2005, with an additional 1 percent payable if GDP growth for 2003-04 exceeds 5 percent, thus honoring an agreement made before the 2003 election. Public-sector salaries make up 50.5 percent of recurrent expenditure. In June the government proposed to reduce public service staffing through natural wastage. However, a recent management audit concluded that the government did not know exactly how many people it employed."

²⁹ The Programming Committee also noted the need to restructure the DFC (minutes from the meeting).

³⁰ The note also added that "the DFC restructuring process is still unclear. In 2003, the DFC embarked on a restructuring process with the objective to allow this development institution to operate independently from the Central Government. A possible outcome of this process is that the GoB will end up assuming the foreign currency debt of the DFC, selling its loan portfolio at a very low price to attract reluctant investors. Despite the restructuring process, salaries and wages of the DFC increased approximately 25 percent in the first nine month of 2003 and total overhead expenditures rose by 35 percent".

³¹ The 1999 IDB Country Paper stated that in Belize "the public sector confronts multiple constraints that have prevented it from effectively fulfilling many of its responsibilities. a) The budget process lacks the multi-annual dimension that would allow it to assess ex-ante the down-stream fiscal impact of long-term investment projects. b. the centralized system of financial management no longer functions effectively due to limited computerization and lack of enforcement of budget guidelines." (GN-2019-2 par. 3.7). The 2000 World Bank Country assistance strategy pointed out that the "system of public accounting and accountability is weak. There are substantial delays in the auditing of governments accounts, and transparency in public policy needs to be enhanced." The 2002 European Union Country Strategy paper 2002 – 2007 also identified the governance problems as a major constraint to the Belizean development: "In the practice, the actions of the Government and public sector in general, often reflect some inconsistencies, which tend to reduce the expected results and impact of investments. Most inconsistencies seem to result from a weak institutional framework, with over-centralized decision making, unsatisfactory level of communication and co-ordination and regular loss of institutional memory. In this context, the

Government should continue to design and implement measures aiming at improving the performance of public services". (EU 2002 pag. 17). The 2002 IMF Article IV consultation pointed out several weakness in the budgeting and monitoring systems: "The staff also expressed concern that budget control mechanisms were inadequate to monitor developments as evidenced by the long delays in reconciling financing with revenue expenditure data" (par. 14) and "data on the operation of the public sector outside the central government and a financial survey includes the DFC and credit unions are sometimes unavailable or only reported with long delays" (par. 30) and finally "Classification of expenditure into current and capital does not conform to international standard. Belize has not been reporting government finance (GF) statistical information since 1997 to STA for its inclusion in the GFS and IFS publication. To report GF data to STA is highly recommended".

³² The study also pointed out that GoB's ministries "conduct little or no budget analysis and have no information on unit costs of the services they provide to guide budget allocations". In addition, the report concluded that while the "current expenditures are relatively tightly controlled", the "capital budget has been volatile and undisciplined". "Miscellaneous and irregular current expenditures and transfers have also been included. The capital budget has been used to multiple purposes – fiscal stabilization, new ventures, and transferring resources off-budget expenditures (as occurred with the DFC) - as well as financing development projects". The study also added that "the lack of a capital budgeting process, and to some extent the capacity to implement it, has led to ad hoc project selection and abuse and misuse of the capital budget" (pag. 71).

³³ Consistently, the PBL loan document pointed out that "at the structural level, Belize's historically weak fiscal institutions, and the volatility shown by fiscal revenues over the years, reveals how vulnerable the fiscal accounts remain in spite of the government's recent efforts." (PR-3116, par. 1.21)

³⁴ Regarding the establishment of the GIC, the EIU commented: "The opposition UDP was entitled to name a representative, but refused to participate, perhaps doubting that the government is serious about tackling corruption. Given that the commission is appointed by the government, it may not achieve a great deal". The Country Report stated: "A Governance Improvement Commission, set up on June 30th to look at ways to raise public accountability and transparency, had made only slow progress prior to the cabinet crisis and re-shuffle. However, there has been no full public disclosure of government borrowing, no draft legislation on Central Bank autonomy, and no further public information on the 2003/04 financial outturn. There is also some concern that the cabinet had not as a matter of course already enjoyed full disclosure of public-sector accounts or borrowing. The financial secretary, Hugh McSweeney, a close ally of Mr. Fonseca, was sacked on November 1st. He has been replaced by Carla Barnett, a former chief executive in the national development ministry and chair of the recently established Governance Commission" (EIU 2004b).

³⁵ An assessment of the Supervision and Regulation of the Financial Sector carried out by the IMF in 2004 recommended that "the authorities should consider amending the legislation to remove the Minister of Finance's power to approve and withdraw licenses, to approve significant enforcement actions and to approve selection of most CBB employees. These measures would remove the potential for intrusions by the Ministry on the operation independence of the CBB." (IMF 2004b)

³⁶ For example, the EIU Country report published in May 2004 reported on the controversial cases of the privatization of the Belize Communication Ltd and of the bankruptcy of the Novelo's Bus Company, cases that involved both the DFC and the SSB. The following EIU report, published in August 2004, reported on additional cases, such as the Print Belize, and pointed out the weaknesses of the anticorruption supervision procedures: "There are at least three anticorruption laws on the statute books, but they are routinely ignored. For example, declarations of assets and liabilities required from members of parliament and other public officials under the 1994 Prevention of Corruption in Public Life Act have in most cases not been completed. The last official list of declarations, for 2000, includes only two members of parliament" (EIU 2004a).

³⁷ In the previously mentioned note, the country coordinator stated that "[Between July and August 2004] major credit risk assessment agencies downgraded Belize's credit outlook [...] not only because of the continuously worsening of the external liquidity situation and the increasing challenge to implement budgeted fiscal tightening, but also due to recent political frictions and the alleged misuse of social security funds". The note also added that "public funds were used to pay private sector's defaulted obligations. [...] Although misuse of public funds has ignited the most serious governance crisis since Belize's

independence in 1981, the crisis is also the result of recent hikes in telephone and water rates, the acceleration of public indebtedness and the *de facto* bankruptcy of the DFC”.

³⁸ As pointed out by Dye and Stapenhurst (1998), the major pillar of public accountability of a Westminster system is the Office of the Auditor General (OAG), which has the mandate to periodically report to the parliament.

³⁹ The need to reform the OAG’s legal framework has been recently remarked also by the IDB Institutional Capacity and Finance Sector (ICF) Department. The “Aide Memoire” of the special mission to Belize for the TC “Strengthening Results Based Management in the Public Sector included in the work program for 2008/09: “g) Review the OAG’s existing legal framework and its current organization structure to propose legal and organizational reforms aiming to strengthen the GoB’s auditing capability”.

⁴⁰ The Bank contracted the following studies: Lall (2003), “Strengthening Export Competitiveness in Belize” and Taylor (2002), “Strengthening Belize’s Export Promotion and Investment Attraction Programs: An Action Plan for the Implementation of Export and Investment Plans and for Capacity-Building in BELTRAIDE.”

⁴¹ The issue of the lack of a clear strategy to address the private sector’s limitation was raised during the CSBL’s discussion by the Programming Committee of Board of Executive Directors on August 30 2004. According to the minutes of that meeting “the Management indicated that the framework of activities under the business climate initiative would be developed in 2004 and the private sector strategy with Belize would be finalized in 2005”. The private sector strategy has not yet been produced.

⁴² Enumerated in the CSBL are: i) limited economy of scale; ii) limited productivity; iii) high concentration of export; iv) lack of associativity in the agricultural sector; v) credit constraints and high cost of capital; and vi) lack of access to technology and information.

⁴³ This is covered in more detail in the discussion of individual projects in Chapter 4.

⁴⁴ Note that these bonds originally stipulated the creation of a reserve account with a six-month worth of debt service provisions to guarantee payments, so that the failure to pay from the part of the government triggered the guarantee mechanism and bondholders received their payments on time. The government stated that it failed to honor its obligations so it could retain its limited funds to service other debt without similar safeguards.

⁴⁵ The study conducted by the IDB concluded that: “DFC loans have been concentrated in large borrowers, leaving medium and small borrowers without sufficient financing. This practice has left SME’s and other sectors and regions unattended. Any mechanisms that will be set in the future to replace DCF lending need to incorporate some offsetting means to improve the prospects of SMEs and less developed sectors and regions”.

⁴⁶ The Aide Memoire of the December 2005 Portfolio and Operation Program Review Mission stated that the Bank and the authorities agreed on a strategy that included “an agreed work plan for establishing a new mechanism that will provide development financing in a sustainable and transparent way [...]”.

⁴⁷ Althun Ha is one of the main Belizean sites, close to Belize City.

⁴⁸ In particular, the visitor center and the lavatories of the Althun Ha site and the monument building at the Caracol site were not completed by the end of the IDB operation. While the lavatories at Althun Ha were eventually constructed, the completion of the other infrastructures is still pending. According to the PCR, these shortcomings were due to some extra-budget excavations works at the Caracol site and access infrastructure at the Xunanthich site.

⁴⁹ These include the PCR and Minutes of the Project Completion Meeting. According to the PCR (par. 2.1.1.1), “the reason for not completing the infrastructure listed in for the two sites [Althun Ha and Caracol] is due to insufficient funds. Overenthusiastic investment in the consolidation of the pyramids at Caracol resulted in less than sufficient funds for the completion of the monument building and part at Caracol and visitors’ center at Athun Ha”.

⁵⁰ According to the PCR, the lesson learned from the implementation is that the PEU “should have included a tourism expert and an engineer since much of the work relating to tourists visitor centers and the Caracol access road required engineering design and supervision”. An engineer was eventually contracted by the Ministry of Tourism during the last phase of the project execution.

⁵¹ According to the executing agency memorandum and to an interview with former director of the PEU carried out by OVE, the project financial problems were due to the fact that the original budget had been

prepared two years before the project actual commencement and to difficulties in coordination among the IDFC, IDB and local counterpart resources.

⁵² The Country Environmental Assessment or Analysis (CEA) is an environmental management tool which complements the usual Environmental Impact Assessments (EIA) of development projects. Both Strategic Environmental Assessment (SEA) and CEA aim at upstreaming environmental considerations into national development and poverty reduction agenda. While SEA is focused on the environmental evaluation of policies, programmes and plans, CEA is intended to identify opportunities for synergies between good environmental management and economic development, as well as environmental risks that can jeopardize economic and social development at a country level.

⁵³ The PEU Memorandum stated that “inequalities would be evident among the target population located in Belize City and Punta Gorda, due to the lack of local shelters and regional shelters respectively. In the case of Belize City significant local shelters were not retrofitted because of susceptibility to storm surge. The lack of a regional shelter in Punta Gorda was a direct result of GoB’s deferment of remaining project budget”.

⁵⁴ With regard to the number of shelters, the Bank reporting is rather confused. The loan document stated that the shelters to be built with the Bank financing were “up to five”. However, the PCR made reference to the construction of seven out of nine shelters built “under this operation”. The IDB/COF specialist informed OVE that only five new regional shelters were eventually constructed, three financed by the IDB operation. In any case, the regional shelter in Punta Gorda was not built.

⁵⁵ The PCR did not provide any information about the quality standard of the new building. The NEMO management confirmed to OVE that the buildings were tested, but no documentation of these tests was provided.

⁵⁶ The hurricane preparedness exercise carried out by the Joint Civil Military Co-operation Group of the British Armed Forces in 2006 concluded that “given the number of evacuees in a category 5 hurricane, there would be insufficient appropriate shelter capacity”.

⁵⁷ CIMIC (2006) “Report of ‘Pelican Storm’. A Hurricane Preparedness Tabletop Exercise”, August 2006, http://www.nemo.org.bz/publications/2006_UK_Joint_CIMIC_Report.pdf

⁵⁸ For example, the lab in Belize City financed by the IDB needs to be moved to Belmopan because it’s affected every time there is a hurricane; there are lab tests that are strongly demanded by the private sector that cannot be offered by BAHA.

⁵⁹ For a review of the Bank’s health sector operations by OVE, see Health Sector Evaluation 1995-2005, OVE (2006).