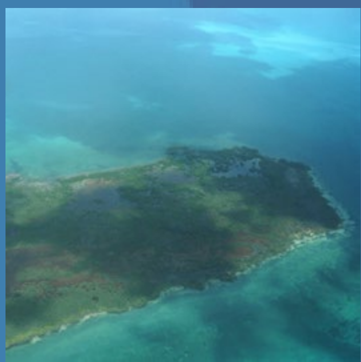
Office of Evaluation and Oversight



Country Program Evaluation

Belize

2008-2012

IDB
Inter-American Development Bank
March 2013

Abstract

This Country Program Evaluation (CPE) for Belize: 2008-2012 is the third time the Office of Evaluation and Oversight (OVE) has evaluated the work of the Inter-American Development Bank (IDB, or Bank) with Belize (the previous evaluations covered 1993-2002 (RE-296) and 2004-2008 (RE-349)). As the Protocol for Country Program Evaluation established, the "main goal of the CPE is to provide information on Bank performance at the country level that is credible and useful, and that enables the incorporation of lessons and recommendations that can be used to improve the development effectiveness of the Bank's overall strategy and program of country assistance" (RE-348-3, p. 1).

The document is organized following the "standard" structure of a CPE.

- Chapter 1 briefly describes the social and macroeconomic context in which the Bank's program was executed. It provides information that may be essential to understand the design, execution, and results of the Country Strategy and its associated program of operations, and also examines Management's diagnosis of the country's main development challenges.
- Chapter 2 describes the main objects of the evaluation—the Country Strategy and its associated program—and discusses their relevance for Belize's economic development in light of the issues raised in the previous chapter.
- Chapter 3 assesses the efficiency of the Bank's work in Belize relative to its work in other countries and tries to identify the factors that contribute to it.
- Chapter 4 is concerned with the results of some of the operations executed during the period. The operations evaluated are those that closed between 2008 and 2012 or that progressed sufficiently in their execution as to be able to show some results. Inevitably, the chapter breaks the flow of the rest of the report as it looks into individual projects. The evaluation team has tried to minimize this break by clustering projects in thematic areas.
- Finally, Chapter 5 summarizes the central arguments and findings to come to an overarching conclusion about the Bank's Country Strategy and program with Belize over the period. Taking advantage of the bird's-eye view that this evaluation provides, the CPE makes a few recommendations that would help the Bank provide better service to Belize.

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Country Program Evaluation

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OFFICE OF EVALUATION AND OVERSIGHT, OVE

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Contents

Acronyms

DFC	Development Finance Corporation
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CPE	Country Program Evaluation
CSB	Country Strategy with Belize
EU	European Union
FDI	Foreign direct investment
FY	Fiscal year
GDP	Gross domestic product
GNI	Gross national income
GoB	Government of Belize
IDB	Inter-American Development Bank
IIC	Inter-American Investment Corporation
IRF	Immediate Response Facility for Emergencies Caused by Disasters
LMP	Land Management Program
MIF	Multilateral Investment Fund
MTFF	Medium-term fiscal framework
OVE	Office of Evaluation and Oversight
NHI	National Health Insurance
PBL	Policy-based loan
PCR	Project Completion Report
PEFA	Public Expenditure and Financial Accountability program
RTC	Regional technical cooperation
SG	Sovereign guarantee
SMEs	Small and medium-sized enterprises

Acknowledgements

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Cahal Pech, Belize. Tourism, which began developing during the second half of the 1980s, now represents between 18% and 33% of GDP.
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Executive Summary

This Country Program Evaluation (CPE) analyzes the work of the Bank with Belize over the period 2008-2012 from a double perspective. One perspective assesses the relevance of the Bank's work by considering the inherent and structural characteristics of Belize and the development challenges they pose. The other perspective looks at relevance, effectiveness, and efficiency by examining the events and circumstances affecting the country during the Country Strategy period.

From the first perspective, this CPE makes the case that Belize is a *small state*. That is, it belongs to a group of countries that face special development challenges. Belize, like most small states, is highly vulnerable to both economic and natural shocks. Also, it lacks the economies of scale that are so important for economic development—a problem that is accentuated by the country's extreme demographic dispersion across a relatively large territory. In addition, the country has limited capacity in terms of human and financial resources, as well as limited capacity to absorb international cooperation. The Bank has identified these issues separately in the past but not as parts of the broader phenomenon of small scale. In fact, the Bank does not have a strategy for working with small states even though several of its borrowing members belong to this group. The Country Strategy with Belize 2008-2012 (CSB) does not appear to have fully recognized the economic implications of Belize's scale.

From the second perspective, Belize is going through fiscal sustainability difficulties caused by the large stock of debt it accumulated between 1999 and 2005. The various economic and climatic shocks the country has faced in recent years, together with increasing social demands arising from unemployment, crime, and poverty (which in turn is a result of the country's vulnerability), have made it difficult for the Government of Belize to keep its debt on a sustainable trajectory, even though it maintained a primary surplus throughout 2008-2012. As a result, in 2012 the Government started to renegotiate part of its foreign commercial debt and asked the Bank to help the process by providing a guarantee of that debt. The request was ultimately declined, but a restructuring was nevertheless successfully achieved in February 2013. During this fiscally difficult period, the Bank approved nine loan operations for a total of almost US$73 million. Three of these operations (US$20 million) were approved in 2010 and 2011 through an increase in the financial envelope that was contrary to the commitments made in the CSB—that such increases would depend on improvement in Belize's GDP growth and debt-to-GDP ratio with respect to a baseline scenario. Although the increase in the financial envelope was not consistent with the CSB's debt sustainability analysis, it must be clarified that the approval of those three additional operations did not add to the country's debt unsustainability; given disbursement delays, the net loan flows received from the Bank during the period totaled an amount only slightly higher than that approved in the CSB.

The Bank's work between 2008 and 2012 consisted mostly of technical cooperations and the nine new loan operations. Only two loan operations were inherited from previous programming periods, because between 2002 and 2007 there was only a single approval—a policy-based loan in 2006. The Bank's work was relevant, as it was directed to priority areas for the country such as public sector management, basic infrastructure (mainly water and sanitation and roads), land management, tourism, health, education, and citizen security. However, because the Bank has not fully recognized Belize's condition as a small state, other very important areas of work were treated insufficiently—most notably, integration (in a broader sense than just trade), which the literature has suggested as a way to circumvent the economic limitations posed by a small scale.

Overall, the execution of loan operations in Belize seems to be costlier than in other country groups. This results partly from the country's lack of capacity, which the Bank's representation is working to improve (although the Country Office itself may be understaffed). Collaboration with Belize is costly not just for the Bank, but also for the country. The Government of Belize is small in absolute numbers, especially in terms of senior staff, which implies that executing the projects funded by the various development agencies may add to the stresses on a government that is already stretched with its essential activities. In addition, there is insufficient coordination among development agencies, which implies the risk of duplication and interference, as well as the loss of potential synergies.

The results of the Bank's work in Belize over the period 2008-2012 are appreciable mostly at the output level. In some cases, outcomes can only partially be attributed to the Bank, and in other cases not enough time has passed for outcomes to materialize. The Bank helped the country improve its public sector management by designing a long-term planning framework, establishing a medium-term fiscal framework, and adopting a new fiscal transparency and responsibility framework and regulations. Through a series of three operations that began in 1997, the Bank also helped Belize develop an accurate cadaster of the northern part of the country, clarify property rights over land in those areas, and establish a modern land administration and information system in the country—which has not yet been fully launched. In tourism, the Bank financed the construction of infrastructure in four important destinations and helped the country develop a long-term development strategy for the sector (the Tourism Master Plan). The Plan was approved recently, and the construction works are still under way. In the social sector, the Bank helped the country reform its health sector, create a more equitable funding scheme for secondary schools and a commission to improve the quality of teachers, and develop a system for the identification of beneficiaries of all social protection programs. It remains to be seen whether these institutional changes will be sustained and whether they will bring the desired benefits to the country. Finally, the Bank helped rehabilitate the road infrastructure damaged by the floods of 2008.

OVE makes the following recommendations to address the findings summarized above:

- Dedicate more efforts toward increasing the country's economic integration.
- Dedicate still more efforts toward reducing the country's vulnerability, understood in an ample sense.
- Work within the limits of the country's absorptive capacity, in terms of institutions and human resources.
- Ensure that all Bank operations are consistent with the debt sustainability analysis performed by the CSB.
- Reduce the costs the Bank imposes on the country.
- Consider increasing in-country presence.

In addition to these recommendations for the Bank's work in Belize, OVE suggests that the Bank as a whole review the way it works with small countries.

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The international financial crisis reduced the demand for Belizean exports, including tourism, further damaging the current account deficit.
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1 Context

This Country Program Evaluation (CPE) takes a double perspective in its analysis of the work of the Inter-American Development Bank (IDB, or Bank) with Belize from 2008 to 2012. One perspective considers inherent and structural characteristics of the country and assesses the extent to which the direction of the Bank's work has been consistent with the development challenges and prospects implied by those characteristics—a matter of sustainability and relevance over the long run. The other perspective considers the circumstances affecting the Belizean economy and society around the period of analysis to determine whether the Bank has responded to them in a relevant, effective, and efficient manner.

A. Belize: Inherent economic features and development challenges

1. A small state: Economies of scale, capacity, and vulnerability

Belize is a young and multicultural nation of approximately 313,000[1] people and a GDP per capita of US$5,896.[2] It is young in two respects: it became independent in 1981, and as much as 55% of its population is under 25 years of age.[3] Given its population size, Belize is considered a *small state* (Figure 1.1 in Annex I). This is important, because a country's size can be a determinant of the difficulty of achieving economic development (Box 1). Small states lack the economies of scale necessary to bring down costs in the domestic provision of many goods and services such as tertiary health and education, infrastructure, and even some private goods. Thus the variety of skills in the population, and of inputs for production, are limited, resulting in high levels of concentration of economic activity and thus high systemic economic risk.

Box 1: A quick glance at the literature on small states

The idea that the scale of a country can affect its development path goes back at least to 1957, when the International Economic Association organized a conference to discuss the economic consequences of the size of nations (Robinson, 1960). Since then, much attention has been placed on defining small states and determining whether they face special development challenges. An important effort in this direction was made by the Commonwealth Secretariat/World Bank Joint Task Force on Small States (CS/WBJTFSS).

Although there has been some debate over what the relevant variable to determine the size of a country is, the discussion seems to have settled for population size, as it is highly correlated with market and country size. The CS/WBJTFSS adopted the Commonwealth Secretariat's definition of small state as any country with a population of less than 1.5 million but also included Jamaica, Lesotho, Namibia, and Papua New Guinea on the argument that "they share many of the same characteristics of smallness."

Although the threshold is arbitrary, when combined with GDP per capita levels it is a useful starting point to identify a group of *developing* countries that "share a number of characteristics that pose special development challenges." Those characteristics—which are not always or exclusively present in small states—can be broadly summarized as follows: limited capacity, remoteness and isolation, limited diversification, susceptibility to natural disasters and environmental change, openness, and poverty. Combined, they imply, among other challenges, limited competition in domestic markets, higher costs in the production of goods and services, and most notably, higher income volatility at the national level and difficulty obtaining access to external capital.

Small states have small domestic markets of goods and services, including a reduced labor force with a limited skills-base. Such **limited capacity** is appreciable in both the private and the public sectors (Streeten, 1993). Hence there is "limited scope for competition in the domestic market and […a] tendency towards monopoly and restrictive practices." (Thomas, p. 7) Areas of the economy that have high operating costs at small scale—such as specialist education and health services—tend to be limited. These problems get compounded by **remoteness and isolation**, which imply high transport costs and reduce the potential for small countries "to turn to world markets to compensate for the drawbacks of the small size of their domestic markets." (CS/WBJTFSS, p. ii).

Another consequence of small domestic markets—and often small territories and limited natural resources—is the **limited diversification** of economic activity. Although this may carry the benefits of specialization, it also implies a high level of risk for the economy as a whole. This systemic risk is further increased due to small countries' usual reliance on commodities and tourism—which are typically sensitive to climatic and environmental conditions—and the fact that these countries tend to be located in regions prone to natural disasters and vulnerable to environmental change. The resulting high **susceptibility to natural disasters and environmental change** adds to the systemic economic risk. So does a high degree of **openness**, as it implies that a significant, concentrated portion of the economy is dependent on external factors. High levels of **poverty**, in turn, translate these economic risks into important threats to the standards of living of the population.

It is important to highlight that small states are not comparable to a similarly sized fraction of a larger country's population. The latter benefit from the broader economic and institutional structure of a large country whereas the former are alone—save for international cooperation—in their development efforts. When a hurricane hits a small city on the coast of Mexico, the city soon after receives the institutional and economic support of more than 110 million fellow Mexicans; when a hurricane hits Belize City, its 70,000 citizens receive the support of another 243,000 people, many of whom have lower economic and institutional capacity than the citizens of Belize City.

Small states have also been observed to have two other characteristics that do not necessarily represent a disadvantage. First, they tend to have *relatively* large governments. That is, government expenditure in small countries tends to represent a larger fraction of GDP than in larger countries (Alesina and Wacziarg, 1998). However, in absolute numbers, the number of people employed in the public sector may be small. Second, small countries are generally more homogeneous from a cultural perspective, which is thought to pose an advantage in terms of social cohesion and governability (e.g. Alesina, 2003). Conversely, heterogeneity arguably causes disagreement over growth policies (Easterly and Levine, 1997) and even lower quality of government (La Porta, et al, 1999).

As always, there is no unanimous agreement on whether small states do indeed face special development challenges. Some empirical studies have not found a negative relationship between small size and income or the rate of growth (e.g. Easterly and Kraay, 1999). The main factor offsetting the disadvantages of size is thought to be openness to international trade.

Indeed, small countries are not doomed to poverty or even slow growth: "size by itself is not a determining factor. What determines economic prosperity is a country's economic integration with the rest of the world" (WB, 2009, p. 102. See also Srinivasan, 1986; Easterly and Kraay, 1999; Alesina and Spolaore, 2003).The reason is that economic integration allows small countries to acquire the economies of scale they cannot find in their domestic markets (Alesina and Spolaore, 2003; Winters and Martins, 2004). Specialization and agglomeration also help to reap whatever economies of scale can be achieved given the country's scale (Box 2). These three reasons arguably explain why small countries such as Iceland and Luxembourg have reached high levels of economic development.

However, because achieving economic integration is challenging and their location makes them highly vulnerable to climatic change and shocks—a challenge not faced by European small states—, small developing states do seem to face additional difficulties for development. But even if one were to argue that economic integration and vulnerability reduction do not represent additional difficulties for development, the fact that small states need to place more emphasis on these two aspects than larger countries implies that the former face special—different—development challenges.

In 2000, a group of specialists conferred to analyze small states and concluded that these countries "share a number of characteristics that pose special development challenges."[4] Those characteristics—not always or exclusively present in small states—are limited capacity, remoteness and isolation, limited diversification, openness, susceptibility to natural disasters and environmental change, and poverty. Belize presents most of these characteristics.

Limited capacity. Belize has a labor force of approximately 126,000 individuals,[5] of which only 6.2%—approximately 7,800 people—have tertiary education. Although its government is large relative to GDP (Table 1.1 in Annex I), it is small in absolute numbers.[6] Moreover, the institutional capacity of the Government of Belize (GoB)—as measured by the IDB's Managing for Development Results Index (Figure 1.2 in Annex I) and the Public Expenditure and Financial Accountability (PEFA) assessment (Figure 1.3 in Annex I)—is low. Thus the country may also have limited capacity to absorb international cooperation.

Remoteness and isolation. In spite of having an economically advantageous location, Belize faces high internal transport costs because of its limited infrastructure, particularly its low density of paved roads and air transport infrastructure (Figure 1.4 in Annex I). In addition, although it is the only country that belongs to both the Caribbean Community (CARICOM) and the Central American Integration System, Belize has been more an island than a bridge between Central America and the Caribbean.[7] It is located relatively far from the other Caribbean countries, and its predominant use of the English language separates it from its neighbors. In addition, most of its trade is concentrated on the United States and the United Kingdom—from 64% to 80% of its exports and 32% to 36% of its imports.[8]

Limited diversification and openness. Belize's economic activity is highly concentrated in just a few sectors: tourism, agriculture—mainly sugar cane, citrus fruits, and bananas—and, more recently, petroleum. These three sectors represent 18%, 11%, and 6% of GDP,[9] respectively, and together with fisheries they also constitute the country's main exports. Logically, imports bring to Belize most of the goods consumed domestically. Put together, exports and imports represent approximately 130% of GDP, a large number by international standards (Figure 1.5). Economic concentration and openness combine to make Belize highly vulnerable to external economic shocks.

Susceptibility to natural disasters and environmental change. The country is highly vulnerable to climatic shocks (Figure 1.6 in Annex I) and, to a lesser extent, to earthquakes. It is located in a zone of hurricanes, and its low elevation means that most of its territory is prone to flooding. In addition, the country is highly vulnerable to climate change. Tourism is chiefly associated with environmental

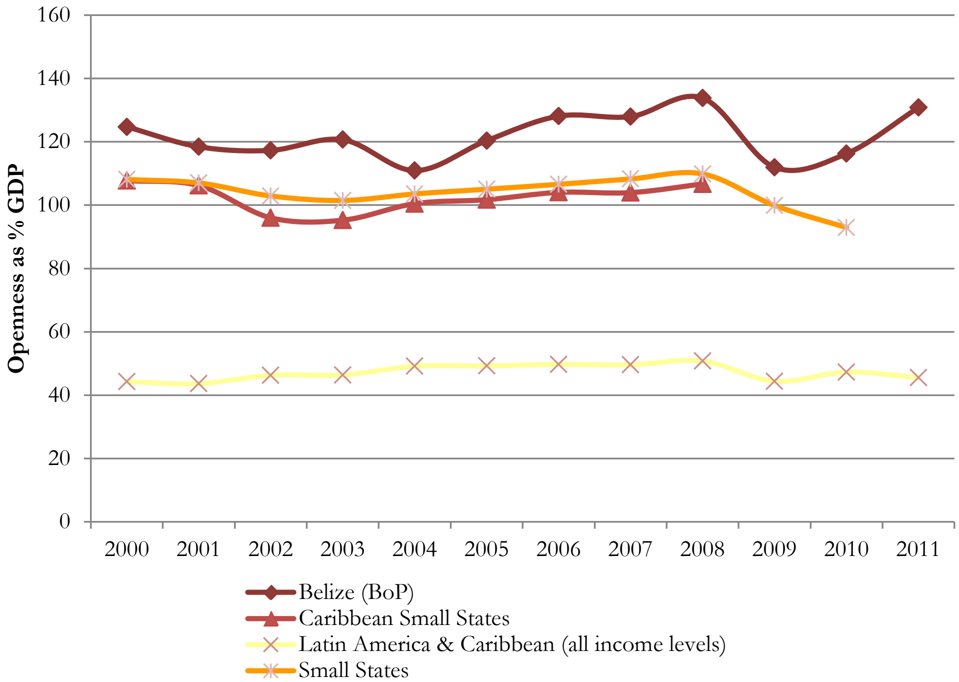


Figure 1.5
Openness as percentage of GDP 2000-2011

Source: World Development Indicators 2012, World Bank. Figures for Belize, Central Bank of Belize

resources that could be affected by global warming, most notably the coral reef. Moreover, climate change is expected to cause a rise in sea levels, which would flood much of Belize's low-lying territory, including Belize City and the islands that attract much tourism (Table 1.2 in Annex I).[10]

Poverty. According to official figures, between 2002 and 2009 poverty increased from 34% to 41.3%. However, this change was not uniform throughout the country. Corozal, in the North, had an enormous increase (115%), while Toledo, in the South, experienced a big reduction (24%)[11] (Figure 1.7). These large changes show the country's vulnerability. Poverty rates in Toledo were very high in 2002 (79%) because the area had been ravaged by Hurricane Iris a few months earlier. In 2009, poverty rates in Corozal rose as a consequence of Tropical Storm Arthur and Tropical Depression 16.[12] But the changes in poverty also reflect underlying economic conditions, such as the international financial crisis and the decline in the sugar cane sector that predominates in the north.

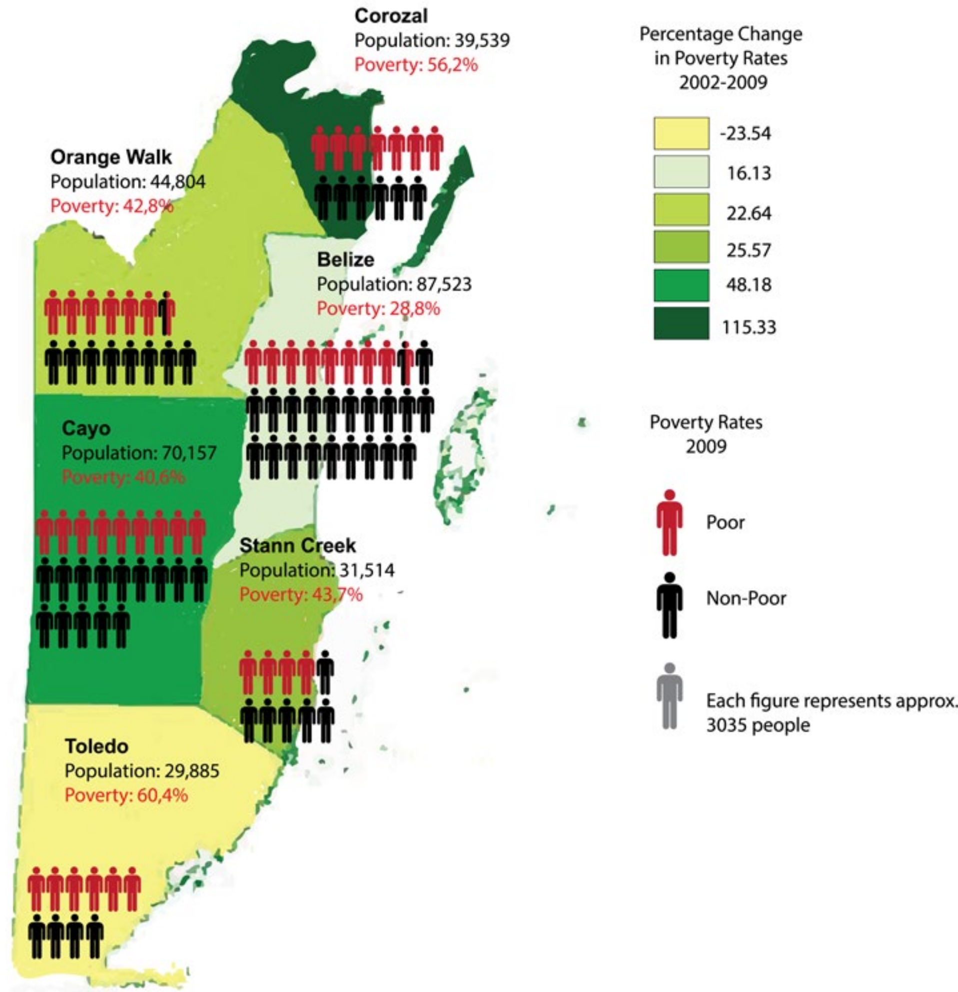
2. Other structural characteristics of Belize

The literature has suggested integration as a possible way of overcoming the challenges posed by a small scale: "Small countries lack the scale, capacity, and stock of production factors to achieve high economic growth by themselves. But … size by itself is not a determining factor. What determines economic prosperity is a country's economic integration with the rest of the world."[13] Belize

Figure 1.7
Poverty Map, 2002-2009*

Source: OVE based on 2010 Population & Housing Census Belize & Poverty Assessment Report (2009)

*All values are based on headcount



has made several efforts toward integration. Since before independence it has joined various regional organizations (Table 1.3 in Annex I) and has signed several international agreements (Table 1.4 in Annex I). Nonetheless, these efforts have been limited geographically, and there is room for further integration, especially with Central America and Mexico.

One crucial characteristic that separates Belize from most other small states is that its population is widely dispersed across a relatively large territory, and therefore it has very few agglomeration economies—a special class of scale economies. Recent economic research has found such economic forces to be important determinants of economic growth (Box 2). Thus Belize's scale, coupled with its demographic and economic dispersion, may pose a big development challenge. Belize's agglomeration index—an inverse measure of dispersion—is the third-lowest among 182 countries (Figure 1.8 in Annex I). Consistent with the literature, this

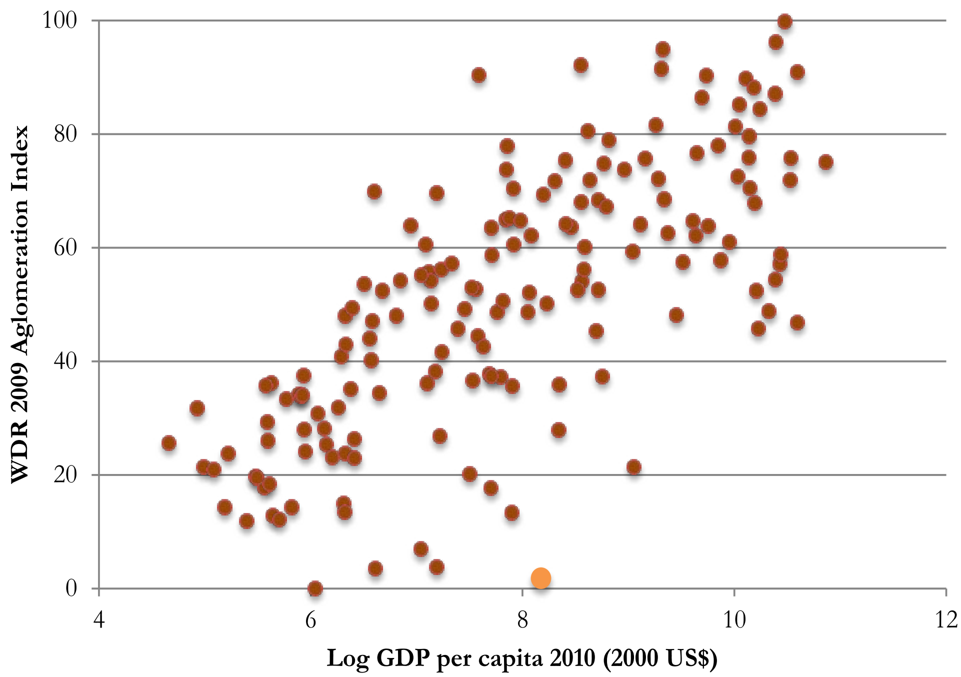


Figure 1.9

Agglomeration index vs. GDP per capita

Source: OVE with data from World Development Indicators, and World Bank, 2009. World Development Report 2009. Reshaping Economic Geography.

Note 1: See Note 3 of Figure 1.8 in Annex I

index is strongly correlated with per capita GDP (Figure 1.9). Belize is a unique case of extremely low agglomeration and middle income, a situation that may be related to the fact that the country's GDP has grown while productivity has not increased.[14]

Belize's demographic dynamics may explain why it maintains such high population dispersion. Belize has a high rate of emigration among highly educated people (Table 1.5 in Annex I), who usually come from the cities; at the same time, the availability of arable land attracts immigrants to rural areas.[15] Hence, there is a constant outflow of people from the cities to abroad, and an inflow from abroad to rural areas.

Another aspect that separates Belize from many small states is its cultural heterogeneity. It is often argued that an advantage of small states is their cultural homogeneity, which is thought to produce social cohesion and governance.[16] But Belize is a cultural mosaic of Mestizos, Creoles, Mayans, Garifunas, Mennonites, East Indians, Caucasians/Whites, and Asians, and social cohesion seems to be a source of concern for GoB authorities.[17] While governance indicators for Belize are generally close to the average for the rest of IDB's borrowing members (Figure 1.10 in Annex I), they present a general trend toward deterioration (Figure 1.11 in Annex I).

BOX 2: A QUICK GLANCE AT THE LINK BETWEEN ECONOMIC GROWTH AND ECONOMIES OF SCALE

Ever since Adam Smith's famous example of a pin factory, economies of scale have been an important concept in economic theory. However, they have recently taken center stage as developments in economic geography, endogenous growth theory, and other areas of economics have revealed that they could be of major importance for economic growth.[a]

There are many types of scale economies in production—Smith's example is just one kind, derived from specialization. The following table presents a classification:

<table>
<tr><th colspan="4">Type of economy of scale</th><th>Example</th></tr>
<tr><td rowspan="3">Internal</td><td colspan="3">1. Pecuniary</td><td>Being able to purchase intermediate at volume discounts</td></tr>
<tr><td colspan="2" rowspan="2">Technological</td><td>2. Static technological</td><td>Falling average costs because of fixed costs of operating a plant</td></tr>
<tr><td>3. Dynamic technological</td><td>Learning to operate a plant more efficiently over time</td></tr>
<tr><td rowspan="9">External or agglomeration</td><td rowspan="4">Localization</td><td rowspan="3">Static</td><td>4. "Shopping"</td><td>Shoppers are attracted to places where there are many sellers</td></tr>
<tr><td>5. "Adam Smith" specialization</td><td>Outsourcing allows both the upstream input suppliers and downstream firms to profit from productivity gains because of specialization</td></tr>
<tr><td>6. "Marshall" labor pooling</td><td>Workers with industry-specific skills are attracted to a location where there is greater concentration[e].</td></tr>
<tr><td>Dynamic</td><td>7. "Marshall-Arrow-Romer" learning by doing</td><td>Reductions in costs that arise from repeated and continuous production activity over time and which spill over between firms in the same place</td></tr>
<tr><td rowspan="4">Urbanization</td><td rowspan="3">Static</td><td>8. "Jane Jacobs" innovation</td><td>The more that different things are done locally, the more opportunity there is for observing and adapting ideas for others</td></tr>
<tr><td>9. "Marshall" labor pooling</td><td>Workers in an industry bringing innovations to firms in other industries; similar to no.6 above, but benefit arises from the diversity of industries in one location</td></tr>
<tr><td>10. "Adam Smith" division of labor</td><td>Similar to no.5 above, the main difference being that the division of labor is made possible by the existence of many different buying industries in the same place</td></tr>
<tr><td>Dynamic</td><td>11. "Romer" endogenous growth</td><td>The larger the market, the higher the profit; the more attractive the location to firms, the more jobs there are; the more labor pools there, the larger the market, and so on</td></tr>
<tr><td colspan="3">12. "Pure" agglomeration</td><td>Spreading fixed costs of infrastructure over more taxpayers; diseconomies arise from congestion and pollution</td></tr>
</table>

[e] For a formalization, see krugman 1991.

Source: WB2009, Table 4.1, p.128 (in turn adapted from Killnenny 2006).

Economies of scale can affect economic development in various ways. The most obvious one is perhaps through their effect on production costs—such as in type 2 in the table above. The provision of non-rivalrous public goods and services becomes cheaper on a per capita basis with an increasingly large number of consumers.

Another mechanism is the one pointed out by the endogenous growth theory—such as in type 11, above. According to this theory, growth is determined by technological innovation, which in turn depends on the size of the market and the availability of human capital. Hence, "an economy with a larger stock of human capital will experience faster growth […which] suggests that free international trade can act to speed up growth" (Romer, 1990, p. S99).

Another (complementary) mechanism is that posited by economic geography. According to this theory, it is in the interest of reaping the benefits of agglomeration economies that firms tend to locate in more heavily populated areas and close to each other. Similarly, people are attracted to densely populated areas due to the availability of jobs and products[b] —including public services, which are cheaper to provide to a concentrated population. The coinciding locational interests of firms and workers-consumers—the so-called "centripetal forces"—sets in motion a self-reinforcing process of agglomeration which is thought to have caused the spatial concentration of economic activity that can be observed throughout the world, especially in developed countries.[c]

However, the process just described is not endless. Agglomeration also generates congestion costs—such as traffic jams, pollution, and crime—which at some point could offset the benefits and stop the process. In addition, immobility of factors can inhibit the process. If people are tied to rural areas—for instance, because they are not able to sell or rent their land without losing it—or if transport costs are so high that bringing agricultural produce and some inputs to the cities is too costly, agglomeration could not take place. In contrast to centripetal, these are called "centrifugal forces."[d]

In Belize, the level of economic agglomeration is very low. An index of agglomeration shows that Belize has one of the lowest levels in the world. This is likely the result of two things: First, a demographic dynamic whereby people from urban areas migrate out of the country, and people from abroad migrate into rural areas—enticed by the availability of arable land. Second, high transport costs within the country due to an insufficient density of roads.

[a] See WB, 2009 for a good summary of the literature. More specifically, see Tables 4.3, 4.4, and 4.5, in Annex I.
[b] See Glaeser, Kolko, and Saiz, 2001
[c] See WB, 2009.
[d] See Fujita, Krugman, and Venables, 2001.

B. Macroeconomic and social context

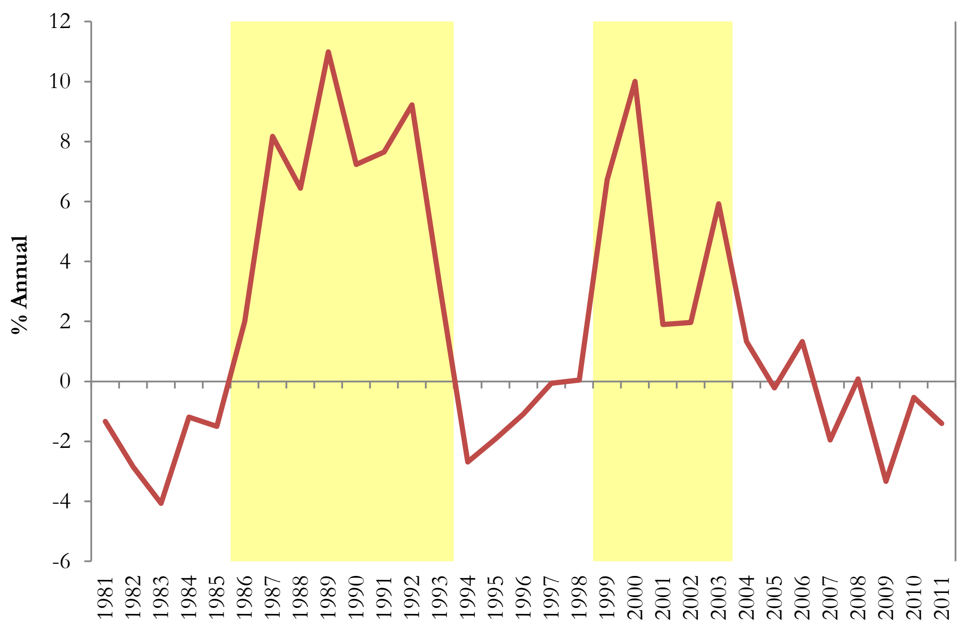
1. Antecedents

Belize has two main political parties that have democratically alternated in government since independence in 1981 (Table 1.6 in Annex I). Since then the economy has gradually shifted from being concentrated on primary activities to being mostly driven by the tertiary sector (Figure 1.12 in Annex I). Primary activities have lost pace partly because, since the early 1990s, the preferential trade in sugar and bananas previously granted by the EU has eroded.[18] Tourism, which began developing during the second half of the 1980s, now represents between 18% and 33% of GDP.[19]

Since independence, Belize has gone through two periods of rapid growth driven by public investment[20] and followed by recession (Figure 1.13). The first of these episodes (1986-1993) was due to the emergence of tourism in the country and was mostly financed through national savings.[21] In contrast, the 1999-2003 growth spurt was driven by public investment, financed mainly through external debt.

Figure 1.13
Growth Rate of GDP per capita. 1981-2011

Source: Figures for 1981-1989, WDI World Bank; Figures for 1990-2011, Central Bank of Belize



Between 1999 and 2005, public debt grew from 48.2% to 99% of GDP[22] (Figure 1.14 in Annex I). Resources were invested directly by the public sector or channeled through the Development Finance Corporation (DFC)—Belize's development bank—as subsidized credit.[23] The DFC quickly accumulated a large proportion of nonperforming loans and had to be restructured in 2006,[24] with the GoB absorbing the losses. To complicate matters, aggregate savings were low, and taxes had been lowered. The combination of these factors not only put an end to this growth episode but also caused public debt and the fiscal and current account deficits to reach unsustainable levels (Figure 1.15).

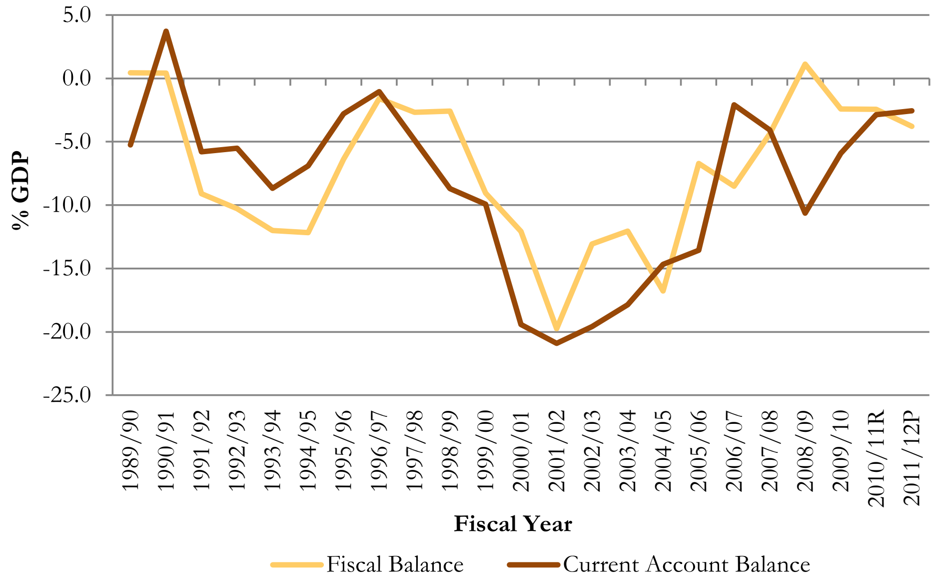


Figure 1.15
Fiscal and Current Account Balance as % GDP. FY 1989/90-2011/12

Note 1: R stands for Revised and P for Projected figures.

Source: Central bank of Belize, WDI World Bank

Toward the end of 2005, the GoB started implementing fiscal measures to close the financing gaps and contain the risk of a balance of payments crisis. Between FY06/07 and FY07/08, tax revenues increased by 12%[25]—mostly from the introduction of the general sales tax—and capital expenditure was reduced by 10%. However, risk agencies downgraded Belize's credit rating (Figure 1.16 in Annex I), and the GoB faced difficulties in funding its fiscal and external deficits.

In February 2007, the GoB rescheduled 98% of the elective debt through the issuance of a US$550 million bond—the so-called "Superbond"—representing 45.3% of GDP. The Superbond represented a 21% reduction in the net present value of debt, and its predefined coupon structure (Table 1.7 in Annex I) bought Belize some time. Achieving fiscal sustainability, however, would require further efforts.

Over 30 years, the Central Bank of Belize has maintained a stable currency fixed to the US dollar—mainly by adjusting banks' reserve requirements—which has allowed inflation to remain below 5%.[26] Between 1981 and 2008, GDP expanded at an average annual rate of 5.3%. However, because much of Belize's economy is based on foreign direct investment (FDI), a considerable fraction of the GDP gets repatriated abroad. As a result, gross national income (GNI) is currently 10% to 15% lower than GDP (Figure 1.17 in Annex I).[27]

The difference between GNI and GDP might explain why the population's standard of living has not increased as much as GDP has. Belize's Human Development Index has increased steadily since 1980 but at a slower pace than that of many other countries in the Region (Figure 1.18 in Annex I). Life expectancy and other health indicators are generally lower than in Latin America and the Caribbean as a whole (Table 1.8 in Annex I) but higher than in Central America (Table 1.9 in Annex I). HIV prevalence is the second-highest among IDB borrowing members (after the Bahamas), though the number of new infections is going down (Figure 1.19 in Annex I). Enrollment in primary school increased substantially during the last decade; however, attendance declined by about the same amount.[28] In line with this, education levels in the labor force are low, a situation that is likely to continue as tertiary enrollment rates are low (Figure 1.20 in Annex I).

2. The Country Strategy period

Although the IDB Country Strategy with Belize (CSB) (GN-2520-2) covers a period starting in 2008—which coincides with the change of government—economically speaking it makes more sense to define the period as starting in 2007, immediately after the debt restructuring. Since then and until the time of this report, the Belizean economy has grown slowly (1.92% on average between 2007 and 2011[29]), and fiscal discipline[30] has increased even in light of important social demands. Nevertheless, because of various external shocks, this fiscal discipline has proven insufficient to achieve sustainability.

When the new government[31] took office on February 2008, it decided to continue with the fiscal adjustments that had begun two years earlier, committing to adhere to the IMF's recommendations to bring public debt down to 40% of GDP by 2019. Public expenditure maintained its downward trajectory—mainly through halting public hiring and salaries—and revenues continued to increase.

The increased revenue was to a large extent due to oil proceeds. In 2005, small petroleum beds were found in the western part of Belize. Extraction and exports started in 2006 and reached a peak in 2009. Performance in the oil sector was a major boost to the economy during those years (Figure 1.21 in Annex I) but as the deposits started to dwindle,[32] the decline in production in 2010 represented an additional blow to the economy among the various shocks that marked the CSB period.

Indeed, the GoB's efforts had resulted in a primary surplus and a positive trend in the general balance (Figure 1.22). However, several external shocks combined to get the economy off track. First, Tropical Depression 16 (October 2008), Tropical Storm Arthur (2008), and Hurricane Richard (2010) flooded large parts of the country, causing substantial damage to infrastructure and agricultural production (Figure 1.23 in Annex I). Second, the food price crisis of 2008 strongly tightened Belizean families' budgets and affected the current account deficit and inflation (which reached 6.8%, the highest level in 10 years). Third, the international financial crisis reduced the demand for Belizean exports, including tourism, further damaging the current account deficit. Finally, grants from abroad dwindled.[33]

These factors combined to cause a sharp reduction in fiscal revenues—13% between FY08/09 and FY09/10[34]—and to increase pressures on social expenditure. Indeed, poverty rates had climbed to 41.3%; unemployment had reached 11.15%, and a much higher rate among youth (Table 1.10 in Annex I); and crime was becoming rampant (Figure 1.24 in Annex I). The GoB did not concede to these pressures and in fact implemented austere fiscal measures.[35] Yet the general balance had deteriorated slightly as of FY09/10.

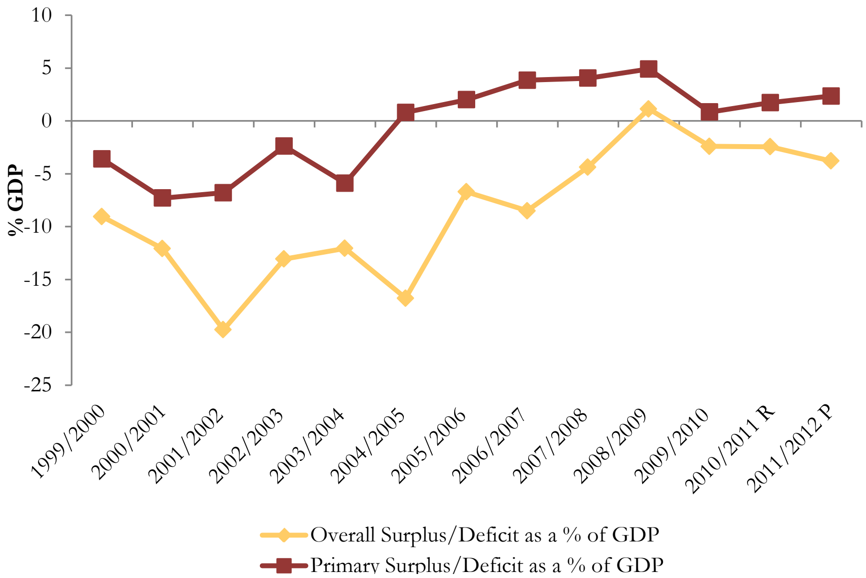


Figure 1.22
Overall and Primary Balance. FY1999/2000-2011/2012

Note 1: R stands for Revised and P for Projected figures.

Source: Overall Balance, Central Bank of Belize. Primary Balance, Budget Presentation FY 2007/2008-2012/2013 y IMF Article IV 2004, 2008

Belize's fiscal structure was therefore still fragile in 2010. The country was dependent on highly volatile sources of income—such as oil revenues and grants (Figure 1.25 in Annex I)—and faced difficulties in reducing current expenditure, prioritizing social expenditure,[36] and increasing efficiency. Moreover, public debt was still at 86.7% of GDP, closely aligned with a trajectory the IMF had declared "not sustainable" in its 2008 Article IV Consultation Report. This fiscal fragility was exacerbated by the accumulation of contingent liabilities, most notably future compensation payments for the nationalization of two public utility companies in 2009 and 2011—Belize Telemedia Limited and Belize Electricity Limited.[37]

In February 2012, as the Superbond's largest coupon payments began to approach, the GoB announced that it would seek a new restructuring of the debt,[38] and the media started to speak of a possible default.[39] The CSB period closed[40] at a time when the GoB was seeking to negotiate a restructuring of the bond and had asked the Bank to help with a guarantee, but the request was eventually declined. Nevertheless, a restructuring was successfully achieved in February 2013 (Table 1.11 in Annex I).

This recent renegotiation is likely to make it more difficult for the country to access international financial markets in the near future. Economic growth will need to be financed either through FDI or national resources. Belize has had important inflows of FDI over the course of the decade, mainly directed to the tourism, real estate, and oil sectors (Table 1.12 in Annex I). However, the decline in oil production and the deteriorating business environment (Figure 1.26 in Annex I) could curtail this source of funds.

Domestic financing is also likely to be limited. Belize's financial sector is highly concentrated,[41] and its banks hold a large amount in nonperforming loans—close to 14% of assets as of March 2012.[42] These factors, together with a restrictive monetary policy, low levels of savings, and lack of fiscal discipline prior to 2005, may have resulted in the high interest rates prevalent in the country.[43] It is precisely this problem of domestic financing that the Bank identified as Belize's main constraint to economic growth.

2

The Country Strategy with Belize highlighted the country's high vulnerability to extreme weather events.
© Sean and Lauren, 2009

2 Relevance

The CSB and the Bank program were relevant for Belize. The Bank helped the country establish a long-term planning framework and invested a substantial amount of financial and technical resources in areas that are—as the GoB agrees—of strategic importance for Belize's economic development. Nevertheless, there is room for improvement: the Bank's CSB and its program lack sufficient recognition of and consistency with the special development challenges posed by Belize's scale and fiscal circumstances.

A. Description of the CSB and the program

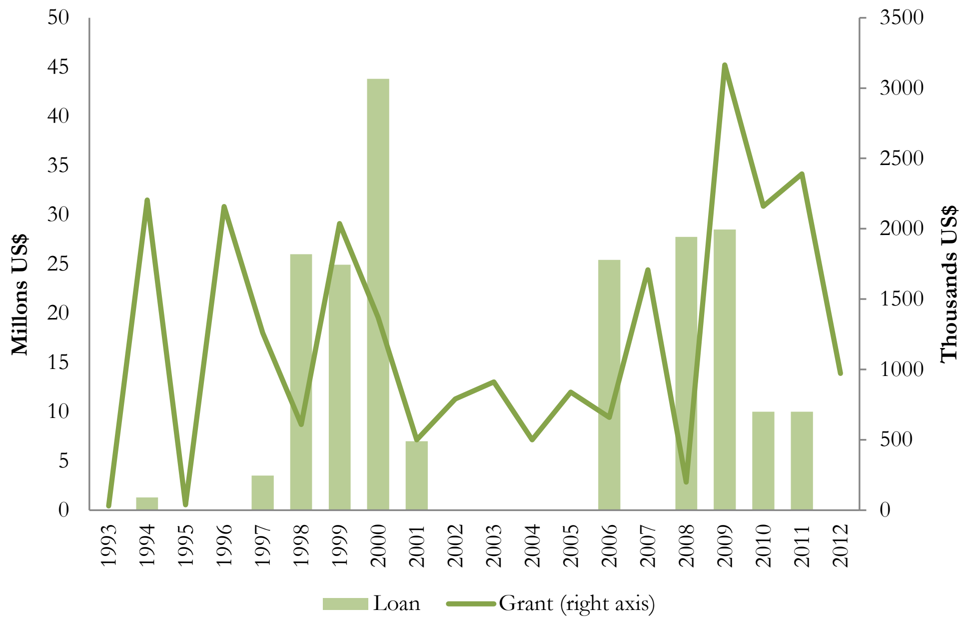
Belize became independent on September 21, 1981, and joined the IDB[44] in 1992 with access to the Fund for Special Operations. However, the new rules for this fund, adopted under the Eighth General Capital Increase, made Belize ineligible for those concessional resources (AB-1704, para. 4.8). Currently, the IDB is one of Belize's main noncommercial lenders (the others are the Government of Taiwan and the Caribbean Development Bank (CDB); see Table 2.1 in Annex I), one of the main providers of grant financing, and the only multilateral bank with an office in the country. The IDB is therefore a very important development partner to Belize. During visits to the country for this evaluation, the GoB authorities acknowledged the IDB's importance to their country's development and expressed their appreciation for the Bank's technical and financial collaboration.

The CSB was approved on June 2009—a year and a half after the new government was inaugurated—and covered 2008 to June 2012 (Country Program Document 2012). Its diagnosis of Belize's development challenges—based on several technical notes[45]—highlighted the country's high vulnerability to extreme weather events; its small and sparse population; its productive concentration on tourism, agriculture, and petroleum; its dependence on fiscal stimulus for its economic activity; and its poor people's limited access to education and health services. According to the CSB, fiscal management is Belize's "Achilles heel" as it contributes[46] to high local interest rates and therefore to a high cost of finance, identified as "the binding constraint to economic growth" (p. 3).

During the CSB period, the Bank approved nine sovereign-guaranteed (SG) loan operations for US$72,972,000.[47] This represented a resumption in approvals of lending operations to Belize, after a six-year hiatus in which only one policy-based loan (PBL) operation was approved (BL-L1001), in 2006 (Figure 2.1). In addition, the Bank approved 17 technical cooperations for a total of US$8,122,830. Approvals to the private sector consisted of one Trade Finance Facilitation Program guarantee (BL-L1012), one Multilateral Investment Fund (MIF) grant, one technical assistance program from the Inter-American Investment Corporation (IIC), and three grants from Compete Caribbean. Finally, the Bank approved five regional technical cooperations (RTCs) that directly benefited Belize (Table 2.2).[48]

Figure 2.1
History of approvals to Belize

Source: OVEDA



Loan approvals were directed to five areas: basic infrastructure (water and sanitation, transport, and environment and natural disasters); reform and modernization of the State; agriculture and rural development; social investment; and tourism. Together, they account for all SG loan operations approved between 2008 and 2012 (Figure 2.2 in Annex I, panels a and b). This pattern is not new: since the Bank started working with Belize in 1993, the same areas have dominated over 90% of the portfolio (Figure 2.2 in Annex I, panels c and d). Adding technical cooperation operations does not change the panorama much. The same sectors represent 95% of the US$85 million approved between 2008 and 2012—22 out of 29 operations—and 97% of the US$148 million approved between 1993 and 1997.

Table 2.2 Belize: Operations in Execution 2008-2012

	Operation	Title		Approval	Amount (US$ '000)	Closure	
		Loans					
Carry Over	BL0014	Health Sector Reform	Investment Loan	2000	$ 9,800	2010	
Carry Over	BL0017	Land Administration II	Investment Loan	2001	$ 7,000	2010	
Programmed (GN-2520-2)	BL-L1003	Sustainable Tourism (A)	Investment Loan	2008	$ 13,322	Active	Approved: $72,972,000 (2008-2012)
Programmed (GN-2520-2)	BL-L1006	Solid Waste Management (A)	Investment Loan	2008	$ 11,150	Active	
Programmed (GN-2520-2)	BL-L1010	Road Rehabilitation (A)	Immediate Response Facility	2009	$ 5,000	2010	
Programmed (GN-2520-2)	BL-L1004	Social Policy Support	Policy Based Loan	2009	$ 15,000	2011	
Programmed (GN-2520-2)	BL-L1009	Agricultural Services	Investment Loan	2009	$ 5,000	Active	
Programmed (GN-2520-2)	BL-L1008	Land Management III	Investment Loan	2009	$ 2,500	Active	
Programmed (GN-2520-2)	BL-L1012	TFFP Atlantic Bank (A)	NSG Guarantee	2009	$ 1,000	Active	
	BL-L1014	Community Action for Public Safety	Investment Loan	2010	$ 5,000	Active	
	BL-L1015	Integrated Water and Sanitation Programme for the Placencia Peninsula	Investment Loan	2010	$ 5,000	Active	
	BL-L1013	Flood Mitigation Infrastructure Program for Belize City	Investment Loan	2011	$ 10,000	Active	
		MIF, IIC, and Compete Caribbean Operations					
MIF	BL-M1001	Improving Small Business Competitiveness in the Tourism Industry	Grant	2005	$ 525	2011*	
MIF	BL-M1002	Mentoring Model to Develop Young Entrepreneurs	Loan	2006	$ 69	Active*	
MIF	BL-M1004	Institutional Strengthening of the Credit Union Sector	Grant	2007	$ 574	2012	
MIF	BL-M1007	Closing the Gap between Mayan Farmers and the Global Organic Cocoa Market	Grant	2012	$ 749	Active	
IIC	BL3364A-01	Belize Co-Generation Energy Limited (Belcogen)	Credit Line	2006	$ 1,000	Active	
IIC		FINPYME		2009		Closed	
Compete Caribbean	BL-CC-1041	Donors' Matrix	Grant	2010		Closed	
Compete Caribbean	BL-CC-1033	Private Sector Assessment Report	Grant	2011		Active	
Compete Caribbean	BL-CC2005	Strengthening the Institutional Architecture Insvestment Attraction in Belize	Grant	2011		Active	
		Regional Technical Cooperation - Regional Amounts					
	RG-T1813	Database Management System for a Regional Integrated Obsesrving Network for Environmental Change in the Wider Caribbean		2010	$ 600	Active	
	RG-T1587	Evaluaciones de Riesgo de Desastre e Indicadores de Riesgo y Gestion del Riesgo de Desastre		2008	$ 930	Closed	
	RG-T1640	Caribbean Carbon Neutral Tourism Project		2008	$ 1,000	Closed	
	RG-T2022	Pilot Program for Climate Resilience Regional Phase I		2011	$ 240	Active	
	RG-T1875	Aid-for-Trade Strategy in LAC		2010	$ 850	Active	

	Operation	Title	Approval	Amount (US$ '000)	Closure	
		Technical Cooperation				
Carry Over	BL-T1002 *	Improving Capacity to Negotiate the FTAA	2005	$ 142	2009	
	BL-T1003	Strengthening the National Response to HIV/AIDS in Belize	2006	$ 104	2008	
	BL-T1004 *	Strengthening the Government's Capacity to Combat Human Trafficking	2006	$ 95	2010	
	BL-T1005	Strengthening Results-Based Management in the Public Sector (PRODEV)	2006	$ 443	2011	
	BL-T1009	Development of a Policy Note on Indigenous Peoples in Belize	2007	$ 30	2008	
	BL-T1010	Tourism & HIV/AIDS: Capacity Building in the Tourism Sector	2007	$ 104	2009	
	BL-T1011	Studies for the Preparation of the Sustainable Tourism Program	2007	$ 367	2009	
Programmed: $3,365,000 (GN-2520-2)	BL-T1042	Legal and institutional framework for water resource management	(Not approved)	---	---	
	BL-T1036	Emergency Assistance due to Tropical Depression 16 (A)	2008	$ 200	2009	Approved: $8,122,830 (2008-2012)
	BL-T1026	Domestic Airstrips (A)	2009	$ 47	2010	
	BL-T1034	Strengthening Belize's Fiscal Transparency and Responsibility (A)	2009	$ 220	Active	
	BL-T1043	Design of Public Investments Supporting Agricultural Competitiveness (A)	2009	$ 133	2012	
	BL-T1024	Implementing the Social Agenda of the National Poverty Elimination Strategy	2009	$ 1,725	Active	
	BL-T1018	Belize City Downtown Rehabilitation	2009	$ 640	Active	
	BL-T1015	Support for the Preparation of an Integrated Disaster Risk Management	2009	$ 400	Active	
	BL-T1039	Program to support the implementation of the Action Plans to strengthen the PFM	2010	$ 900	Active	
	BL-T1044	Strengthening of Pension System in Belize: Evaluation and Reform Proposal	2010	$ 350	Active	
	BL-T1046	Support the preparation and execution of the loan operation BL-L1014	2010	$ 350	Active	
	BL-T1047	Program to Enhance Coordination of Belize Reform Agenda in Public Expenditures	2010	$ 60	Active	
	BL-T1048	Detailed Design of Wastewater Collection and Treatment System in Placencia	2010	$ 500	Active	
	BL-T1049	Enhancement of the Belize Teaching Force	2011	$ 1,000	Active	
	BL-T1050	Support to sustainable urban infrastructure systems in Belize City	2011	$ 450	Active	
	BL-T1051	Action Plan for C and D Countries	2011	$ 190	2012	
	BL-T1052	Action Plan for C and D Countries	2012	$ 208	Active	
	BL-G1001	Salud Mesoamerica 2015 Initiative--Belize	2011	$ 750	Active	

Source: OVE analysis based on GN-2520-2, Country Program Documents and OVEDA

(A): Operation already approved when GN-2520-2 was approved (June 25, 2009)

* The operation suffered a partial cancellation

B. Consistency between the CSB and the approved program

The operations approved during 2008-2012 were mostly consistent with the CSB, with 47% of monetary resources and 9 operations concentrated on strategic objective 2.3: "Strengthen capacity for sector planning and reduce infrastructure bottlenecks." However, two observations deserve attention.

- Although the CSB did not include an objective on citizen security, just 10 months later operation BL-L1014 "Community Action for Public Safety" was added to the pipeline[49]—which implied adding the corresponding strategic objective to the CSB. This operation seems to have originated from a request by the GoB following a series of violent episodes in Belize City and street protests demanding governmental action to reduce crime.
- Even though the CSB identified high local interest rates as the binding constraint to growth, few operations were directed at lowering interest rates. Only two operations were directly related to the financial sector (BL-L1012 and BL-M1004), and one of them was approved before 2008.[50] Another four operations (one approved before 2008) were partly directed toward increasing fiscal responsibility, which, according to the CSB's diagnosis, would help reduce interest rates. However, this could only be expected to occur over the long run. The importance assigned by the CSB to high interest rates in Belize called for additional and more direct efforts at reducing them—for instance, along the lines of the recommendations made in the 2011 Financial Sector Assessment Program.

C. Consistency of the CSB and program with the country's development challenges

The work of the Bank with Belize between 2008 and 2012 was generally consistent with the country's development challenges and therefore relevant. The CSB and supporting technical notes provided a detailed diagnosis of those challenges, and the operations approved were directed at helping the country overcome some of them and provide adequate conditions for economic growth.

However, the CSB was less relevant than it might have been because it did not fully recognize the special development challenges that Belize's scale poses. The CSB mentions the small size of the country (para. 1.4), but treats it as an isolated fact that bears no relationship to Belize's other development challenges. Hence (and more importantly), it does not establish general guidelines to tailor the Bank's work to the particular needs that arise in Belize because of its scale.

In particular, the CSB pays little attention to integration. It includes the intention to help Belize foster trade;[51] however, it makes little or no mention of integration in such areas as health, education, energy, transportation, climatic risk management, standards and regulations, and the financial sector. Even the RTCs—arguably the natural instrument to foster integration—were mainly national projects under regional umbrellas,[52] and only two of the five addressed integration issues. The country has already taken steps toward integration, but more can still be done, and the current government has expressed interest in this regard.[53] The CSB's lack of emphasis on integration is particularly noteworthy since the IDB's 2007-2010 regional strategy for support to the Caribbean Community (GN-2436) readily recognized the importance of integration for small states. Furthermore, as an international organization, the Bank is in an advantageous position to promote integration—a point recognized by the first Country Programming Paper (GN-1871-1, p. ii) and supported by the literature.[54]

In terms of vulnerability to both climatic and economic shocks, the Bank supported fiscal reforms that could contribute to reducing Belize's macroeconomic vulnerability, and it addressed the country's exposure to climate change and natural hazards through four of the five RTCs approved in this period. Even though these actions may be beneficial, they may not yet be commensurate with the importance vulnerability has for the country, and they reflect the little emphasis that the CSB places on this issue.

More generally, the Bank has not fully recognized the special development challenges of small states. They need a stronger emphasis on integration and reducing vulnerability; but in addition, international collaboration needs to be careful not to exceed the country's absorptive capacity. In the past, the Bank has recognized these issues,[55] but not as part of the broader, more complex challenge of addressing the particular needs of small states. The Small and Vulnerable Countries Program (GN-2616-1) is not really a program but only a concessional financing facility that does not involve an economic analysis of the special challenges faced by small countries. Perhaps as a result, it includes much larger countries that are usually not considered small states and that face somewhat different challenges.

In addition, some of the Bank's instruments and policies do not seem well suited for small states. The Immediate Response Facility for Emergencies Caused by Disasters (IRF) is a case in point. The IRF's resources are for "financing the costs of repairing property damage" (GN2038-16, para. 2.6), so using the IRF would, at best, leave a country as vulnerable as it was before the disaster. Since there are often economies of scale in construction of infrastructure, there are benefits to *improving* rather than just *repairing*.[56] Of course, these benefits must be weighed against the fiduciary risks associated with the laxer policies required by a rapid-response instrument. But if the benefit-risk balance currently reached by the IRF is adequate for the average IDB borrowing country, it must be inadequate for small and vulnerable states where the marginal benefits are higher.

The previous CPE made six recommendations to improve the Bank's assistance to the country. All six were addressed, albeit four only partially. Although the CSB presented a debt sustainability analysis, not all approved operations were consistent with it. The CSB contains the objective of promoting private-sector-led growth, and several operations—most of them SG—are aligned with that objective; however, private sector operations still lack the coherence that would result from having a strategic plan in place. There is only small evidence of further work to ensure the sustainability of infrastructure works, and this problem is present in most of the operations executed after 2008.

D. Consistency of the program with the circumstances of the period

Between 2008 and 2012, the Belizean economy was affected by various shocks. Tropical Depression No. 16 struck in October 2008 and flooded a sizable fraction of the territory, generating losses of approximately US$12 million[57] in damages to public infrastructure and private possessions and in lost agricultural production. The Bank responded swiftly, providing relief to the victims through operation BL-T1036—Emergency Assistance due to Tropical Depression 16. In addition, on March 2009 it approved operation BL-L1010—Emergency Road Rehabilitation Program, also in response to the tropical depression.

The economy was also affected by the international financial crisis, the food price crisis, and a fall in oil revenues, but because of the country's limited fiscal space, the Bank could not respond with further relief or countercyclical operations. In 2010, however, the GoB updated its debt-to-GDP targets[58] and the Bank increased its financial envelope, which allowed the approval of operations BL-L1014—Community Action for Public Safety, BL-L1015—Integrated Water and Sanitation Programme for the Placencia Peninsula, and BL-L1013—Flood Mitigation Infrastructure Program for Belize City. The first of these operations responded to a request by the GoB, and the third was adapted to help rehabilitate the damages caused by Hurricane Richard in October 2010.[59]

The financial envelope to Belize was increased by almost 40%— a total of US$20 million, equally split between the years 2010 and 2011. The increase took place even though at the time the macroeconomic fundamentals the CSB had committed to monitor had worsened: real GDP growth was lower and the debt-to-GDP ratio higher than the CSB's baseline scenario (Box 3). The approval of operations BL-L1013, BL-L1014, and BL-L1015 was therefore inconsistent with the country's fiscal sustainability, as assessed by the CSB. It is important to note, however, that the Bank contributed little more to the country's actual indebtedness than what was authorized at the approval of the CSB: because of slow execution, net loan flows exceeded the limits established by the CSB's baseline scenario by only US$3.1 million.

Box 3: Further explanation about the increase in the financial envelope to Belize

In July 2010, through the 2010 Country Programming Document, the Bank increased its financial envelope to Belize for the period 2008-2012 from US$52.5 million to US$62.5 million. One year later, another increase of equal size was implemented. Together, the financial envelope was increased by US$20 million, almost 40% of the financial envelope originally approved in the CSB. The purpose of this box is to provide a clear and factual analysis that helps better understand these decisions and their implications for the Bank and Belize.

The financial envelope for the period 2008-2012 approved in the CSB was determined on the basis of a debt sustainability analysis (DSA) performed as part of the CSB—which in turn was based on the IMF's DSA included in the Belize Staff Report for the 2008 Article IV Staff Consultation and January 2009 update (CSB, Annex VIII). As stated by the CSB,

> "The framework for IDB sovereign guaranteed lending is based on a sustainable debt reduction path, to 40 percent of GDP by 2019. Hence, the Baseline Scenario of loan approvals disbursements and net loan flows is framed within this context and the IDB's financing envelope for 2008-2012 is US$51.5 million. The program is front loaded in 2008-2009" (CSB, Executive Summary).

The Baseline Scenario was presented in Table 2 of the CSB and is summarized below:

	2007	Est. 2008	Proj. 2009	Proj. 2010	Proj. 2011	Proj. 2012
Debt/GDP (%)	84.7	77.7	76.8	74.8	70.4	66.0
Real GDP growth (LOW) (%)	1.2	3.8	1.0	1.0	2.3	2.4
Net loan flow (with IDB) (US$ millions)	16.2	-1.6	10.4	9.2	0.8	-0.7
Disbursements (by IDB) (US$ millions)	20.2	2.6	14.7	13.5	5.5	6.1
Approvals (by IDB) (US$ millions)	0.0	24.5	27.0	0.0	0.0	0.0

This baseline scenario was deemed unsustainable by both the IMF and the IDB: "Under the baseline scenario, debt is unsustainable in the long-run" (CSB, Annex VIII). For that reason, it was important that growth accelerated and the debt-to-GDP ratio diminished before increasing IDB lending to Belize. This was stated in the CSB:

> "The IDB will continuously monitor fiscal sustainability throughout the country strategy period and calibrate its financing in accordance with changing country conditions. If GDP growth is faster than projected in the Baseline Scenario thereby creating new space for IDB lending while maintaining the desired debt/GDP trajectory, the Bank will be prepared to increase its lending up to a maximum envelop of US$101.5 million" (CSB, Executive Summary; emphasis added).

Despite this commitment, the financial envelope was increased a year after the CSB was approved when both real GDP growth was slower and the debt-to-GDP higher than projected in the Baseline Scenario. The following table presents the information available to the Bank at the time that the financial envelope was first increased:

	2007	2008	Est. 2009
Debt/GDP (%)	88.5	82.7	86.7
Real GDP growth (%)	1.2	3.6	-0.8
Net loan flow (with IDB) (US$ millions)	16.3	-1.6	8.7
Disbursements (by IDB) (US$ millions)	20.2	2.6	12.9
Approvals (by IDB) (US$ millions)	0.0	24.5	27.5

(*Source:* OVE with data from Central Bank of Belize, *2009 Annual Report*, and IDB's Finance Department.)

The increase in the financial envelope that took place in 2010 and 2011 was therefore inconsistent with the DSA and the commitment made in the CSB.

The Country Program Document for Belize of June 2010 states that the increase in the financial envelope was possible because the Government of Belize was no longer pursuing the debt-to-GDP trajectory it had committed to at the time of the CSB—the one suggested by the IMF, leading to a 40% debt-to-GDP ratio by 2019:

> "In the April 2010 – March 2011 Budget the government presented a medium-term fiscal framework that updated its targets for the reduction in the debt-to-GDP ratio, taking into account the 2009 recession. The updating of the government's targets creates space for moderate IDB lending above the CS baseline scenario for the remaining period of the CS" (Belize Country Program Document, June 2010, footnote 1. This document is electronically linked to GN-2576). The fact that the Government of Belize was willing to incur more debt does not imply that the country's debt is more sustainable—quite the contrary.

However, it is important to stress that the Bank did not actually contribute to the country's financial difficulties. The reason is that loan operations executed slowly and, as a result, net loan flows remained roughly within the CSB's baseline scenario—even considering the three operations approved with the increase in the financial envelope:

	2008	2009	2010	2011	2012	Total
Net Loan Flows (CSB's baseline scenario) (US$ millions)	-1.6	10.4	9.2	0.8	-0.7	18.1
Net Loan Flows (observed) (US$ millions)	-1.6	8.7	1.4	5.9	6.8	21.2

Therefore, during the period 2008-2012, Belize's indebtedness with the IDB increased by US$21.2 million, only US$3.1 million more than what was approved in the CSB.

The food price crisis of 2008 strongly tightened Belizean families' budgets and affected the current account deficit and inflation.

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E. Consistency of the CSB with the government's development strategy

In collaborating with Belize since 1993, the Bank has followed a stable strategy centered on promoting private-sector-led growth. This is evident both from its stated objectives and from the fact that it has consistently concentrated on the same sectors—among them, basic infrastructure, agriculture, and tourism (Table 2.3 in Annex I).

The CSB seeks to reach its objective of fostering private-sector-led growth mostly by working with the public rather than with the private sector, and thus working directly with Belizean firms did not appear to be a priority at the formulation of the CSB. This is consistent with diagnoses carried out by the Bank showing that the main constraints to the private sector emanate from the actions of the public sector. In fact, the CSB does not present a strategy for working with the private sector. Instead, its Annex II reiterates the conditions identified as necessary for the development of the private sector and reasserts the Bank's strategic approach of working with the public sector.

The Bank's scope for collaboration with Belize over 2008 to 2012 was determined by seven strategic objectives. According to the CSB, these objectives were aligned with four country development objectives on which the GoB was planning to concentrate (Table 2.4). However, OVE consulted the three documents referenced in the CSB and was unable to find the GoB's prioritization (Table 2.5 in Annex I).[60]

Table 2.4. Country Strategy's Objectives

Country Development Objectives	IDB Strategic Objectives
1. Ensure sound fiscal management and public sector transparency	1.1 Strengthen institutional framework for fiscal management
2. Create conditions for and restore sustainable, private sector led growth	2.1 Reduce fiscal pressures on domestic interest rates and improve access to credit
	2.2 Consolidate and improve land management services
	2.3 Strengthen capacity for sector planning and reduce infrastructure bottlenecks
3. Improve human resource development and social protection	3.1 Improve coverage and quality of health and education especially for the poorest districts
	3.2 Improve efficiency of social protection programs
4. Rehabilitation of basic infrastructure	4.1 Rehabilitation of road infrastructure damaged by floods

Source: GN-2520-2

At the time the CSB was being produced, the GoB did not have a public document stating its development plan. Following extensive consultations with grassroots stakeholders and technical and policy specialists,[61] the GoB completed *Horizon 2030* in 2011, which included 22 goals grouped under four headings: Democratic Governance, Education for Development, Economic Resilience, and Healthy Citizens and a Healthy Environment. Although it is not possible to establish one-to-one relationships between the objectives of the CSB and those of *Horizon 2030*, OVE found all of the former to be contained among the four *Horizon 2030* headings, with a clear concentration on Economic Resilience (Figure 2.3 in Annex I). This match confirms the relevance of the CSB: since *Horizon 2030* was approved almost two years after the CSB and following a process of consultation with multiple actors, there was no guarantee that the CSB would be consistent with it. Nevertheless, the Bank had an important influence on the final document.[62]

F. Coordination with other development agencies

Several development agencies work with Belize, but most of them have little or no physical presence in the country. Their investments in the country are much smaller in US dollar terms than the IDB's—except for the CDB and the EU—but span a wide range of working areas (Figure 2.4).

Natural disasters and climate change could have large negative effects on tourism and agriculture.

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Although various operations mention collaboration with other development agencies,[63] OVE consistently found in its interviews scant coordination and even communication among these development agencies. The GoB has mostly promoted division of labor among the agencies to ensure that work is not duplicated,[64] but it has not promoted coordination, which could bring various gains and help avoid costs. Information from OVE's interviews indicates, for instance, that valuable staff—such as successful project managers and skilled fiduciary specialists—are often lost to other development agencies because of wage differentials and the agencies' zealous search for scarce human resources. Those movements could have large costs to a project if they occur during execution, and they suggest that external aid may have exceeded the country's absorptive capacity in terms of human resources.

OVE interviewed several staff members from the Bank and other development agencies. From both sides it emerged that the IDB—both in Washington and Belize—does little to reach out to other development agencies, while a few of the other agencies do make some efforts to communicate with the IDB. However, some interviewees also mentioned that this situation has recently begun to improve. Donor coordination is a task of the GoB, yet the Bank should reach out more to other development agencies.

Figure 2.4 Thematic Areas - Correspondance between Belize Strategic Goals and Portfolio* (Includes projects under execution as per April 2012)

		IDB	CDB	WB	EU	OFID	CABEI	UN	GoB	Others
Democratic Governance	Rebuild accountability in government and politics									
	Eradicate corruption and improve public service delivery	2	1					2	2	2
	Transform the political culture									
	Complete the reform process to strengthen democratic governance									
	Strengthen accountability of village administration				1			1	1	1
	Strengthen law enforcement and access to justice	1						1	2	
Education for Development	Strengthen management, monitoring and accountability		2						1	
	Improve access to education									
	Improve delivery and relevance of the education curriculum									
	Develop education support systems and services									
	Develop adult and continuing education									
Economic Resilience	Develop a strong small business sector to create jobs		2				1		1	
	Develop the domestic market(…) and expand exports	1	3		3	1	1	1	2	1
	Build a Vibrant Agriculture Sector and Strong Rural Communities	1			1			2	1	1
	Support Sustainable Fisheries and Tourism	1							2	
	Implement a coherent and consistent macro-economic policy								1	
	Target selected new sectors with growth potential				1					
Healthy Environment	Incorporate environmental sustainability into planning / management	2	1		1			2	3	
	Promote green energy		1							1
Healthy People	Universal access to health care									
	Promote healthy lifestyles/family and community programs	2	1	1					1	1
	Ensure accountability for the delivery of health services									

Scale

1 Strat. Action	2 Strat. Actions	3 Strat. Actions

Source: OVE's estimations based on Belize's Public Sector Investment programme Report as at April 2012

* Excludes Grants

Note: Even though some projects could be categorized under more than one thematic area (i.e. loans for the development of a sewage collection and treatment system), each project was assigned to the "main" area to which is related. The scale of greens indicates whether the multilateral organization covers one, two or three particular actions within each goal. Note that colors are not related to number of projects nor monetary amount of intervention. The more intense the color, the more allignment with the Government's goals within the area of intervention.

3

Climate change is expected to cause a rise in sea levels, which would flood much of Belize's low-lying territory, including Belize City and the islands that attract much tourism.
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3 Efficiency

Given the limited capacities of Belize, it is to be expected that the Bank's work in the country should face more project implementation and execution problems, including issues of timeliness and higher costs, than in other borrowing countries. OVE's analysis partially supports this hypothesis. Although the data from 2008 to 2012 show the time for project preparation and execution to be roughly in line with comparator country groups, the most recently concluded investment operations experienced long delays. There is also evidence that some of the newly approved investment operations are experiencing delays. The analysis also indicates that preparation and execution costs for Belize may be relatively higher than those in other borrowing countries, and suggests that the Bank should pay attention to measuring and monitoring those costs.

Efficiency is measured by weighing the investments of time, money, and human resources against the outputs obtained. Since the outputs of Bank operations are not comparable, the "outputs" we consider for this exercise are the completion of a project, as well as its delays and partial or total cancellations—the last two being negative outputs. Since there are no absolute criteria for efficiency, any judgment must be relative. Various comparison groups are used for this purpose: the rest of the Bank's borrowing countries, the rest of Central America, the rest of the CID (Central America, Mexico, Panama and the Dominican Republic) region, the Caribbean region, and other countries that—like Belize—have a low ranking in the IDB's Management for Development Results index.

A. Preparation and execution of operations

Belize's portfolio contains a comparatively small number of operations, and only one loan was approved in the previous strategy period (BL-L1001). Therefore, the indicators discussed below are highly volatile, depending substantially on each single operation. The preparation time for PBLs is a case in point. Belize has had only two PBLs approved: BL-L1001 (2006) and BL-L1004 (2009). These operations took substantially longer to prepare than PBLs in the comparison groups during the same periods (Table 3.1); however, they may constitute special cases, given the multisectoral nature of operation BL-L1004.

Table 3.1. Timeliness of Project Design and Execution - Policy Based Loans

		Belize	IDB-	CA-	CID-	CBB	Low MfDR
Operations approved between 2003 and 2007							
DESIGN							
a1	Preparation time (months)	28.2	18.0	22.8	23.5	15.8	14.3
Operations approved between 2008 and 2012							
DESIGN							
b1	Preparation time (months)	28.8	15.8	12.9	13.4	17.0	17.8

Source: OVEDA

In terms of the new investment loans, Belize has performed substantially better than all the comparator groups (Table 3.2). Between 2008 and 2012, preparation times for investment loans approved were shorter on average (line 1), a smaller proportion fell behind in disbursements (line 7), and the degree by which the portfolio underdisbursed was also smaller (line 8). Also, there have been fewer cancellations (lines 5 and 6), and almost no extensions to the original disbursement expiration dates have been required (line 4). Technical cooperation operations show a similar pattern in those indicators that could be constructed with the available data (Table 3.3). Preparation times have been shorter than in all comparator groups (line 1), extensions have also been shorter on average (lines 3 and 4), and there have been fewer partial and total cancellations (lines 5 and 6).

Nevertheless, these facts correspond only to new operations and differ from the country's track record with completed investment loans. Since joining the Bank, Belize has completed seven investment loans with an average extension in execution time of 60%. More importantly, the only two investment loans that closed during the period 2008-2012 (BL0014 and BL0017) exceeded their originally planned duration by more than 120%.

Table 3.2. Timeliness of Project Design and Execution -Investment Loans

		Belize	IDB-	CA-	CID-	CBB	Low MfDR
Operations approved between 2008 and 2012							
Design							
1	Preparation time (months)	17.4	20.5	21.3	20.6	22.5	18.9
2	Approval to 1st disbursement (months)	12.3	12.0	15.7	13.0	8.0	10.4
Delays							
3	(App. to tot. exp. date) / App. to orig. exp. date): Closed ops.	n.a.	0.6	1.2	0.6	1.1	0.8
4	(App. to current exp. date) / (App. to orig. exp. date): Active ops.	1.0	1.0	1.0	1.0	1.0	1.0
Partial Cancellations							
5	Proportion of operations that had cancellations	0.00	0.03	0.00	0.02	0.00	0.04
6	Proportion of total $ approved that was cancelled	0.00	0.02	0.00	0.02	0.00	0.01
Disbursement Progress (all active operations 2008-2012)							
7	Incidence of underdisbursement among all **closed** operations	0.4	0.5	0.5	0.5	0.5	0.5
8	Incidence of underdisbursement among all **active** operations	0.1	0.2	0.2	0.2	0.3	0.2
9	Average age of **active** operations (months)	40.7	42.6	46.8	45.3	45.5	47.1

Source: IDB EDW Enterprise Data Warehouse

Table 3.3. Timeliness of Project Design and Execution -Technical Cooperations

		Belize	IDB-	CA-	CID-	CBB	Low MfDR
Operations approved between 2008 and 2012							
Design							
1	Preparation time (months)	3.5	4.6	4.2	4.4	6.0	5.7
2	Approval to 1st disbursement (months)	n.a.					
Delays							
3	(App. to tot. exp. date) / App. to orig. exp. date): Closed ops.	1.06	1.40	1.40	1.31	1.54	1.57
4	(App. to current exp. date) / (App. to orig. exp. date): Active ops.	1.32	1.43	1.73	1.60	1.46	1.41
Partial Cancellations							
5	Proportion of operations that had cancellations	0.18	0.29	0.32	0.31	0.29	0.29
6	Proportion of total $ approved that was cancelled	0.01	0.03	0.04	0.04	0.02	0.01

Source: IDB EDW Enterprise Data Warehouse

Despite the recent improvements in project execution, it became evident—from the interviews OVE conducted with both Bank staff and Belizean counterparts, some of the information available in Project Monitoring Reports, and the results of an OVE survey on technical cooperation operations (Annex 2)—that a few delays may already be taking place in some of the operations approved since 2008. The most often mentioned cause for these delays is an insufficient base of skilled human resources—an issue of insufficient absorptive capacity in the country. It seems to be particularly difficult to find persons with strong project management skills.[65] As a result, project execution proceeds slowly and with difficulty until a highly committed and skilled manager is found—as, for example, in BL-L1006. Since such individuals are scarce in the country, it may take a long time until one is found, and then there is still the risk that this person will move on to a similar position in a better-paying project—as happened in operation BL-L1013. A similar problem also pointed out by interviewees is the GoB's limited project execution capacity. Consistent with this, OVE's survey found that the two technical cooperation execution problems most often cited are the executing agencies' institutional capacity and commitment (Figure 3.1 in Annex I). When asked to provide an opinion about specific aspects of the executing agencies' capacities, respondents generally expressed a positive opinion about the skills of the personnel, while some considered that the number of personnel was inadequate (Figure 3.2 in Annex I). The Bank has recently made investments in project management training in Belize (BL-T1051 and BL-T1052), an effort that is likely to yield positive results.

Another area that seems to present difficulties for project implementation is the use of Bank systems, particularly in procurement. Because executing units often have limited knowledge of the Bank's fiduciary policies, some procedures require close and repeated interaction between executing units and Bank staff until they meet the Bank's standards; a case in point is the purchase of computing equipment in operation BL-L1009. In addition, some Belizean counterparts indicated that they sometimes receive contradictory advice from the Bank on these issues. This is consistent with the fact that fiduciary reform (OP-129) has been only partially implemented in Belize. It is important to mention, however, that the proportion of qualified external financial audits is lower in Belize than in all comparator groups (Table 3.4 in Annex I).

The indication that executing units may be receiving inconsistent fiduciary advice signals a problem of coordination within the Bank, an issue that was also brought up at the project level. According to several interviewees, teams from different projects do not appear to be in close communication even when their projects are on similar topics or geographic areas. For example, after the Sustainable Tourism Project (BL-L1003) built a plaza and landscaped a sidewalk, the Integrated Water and Sanitation Programme for the Placencia Peninsula (BL-L1015) was planning to remove a large fraction of that sidewalk to bury the sewage pipes (Figure 3.3 in Annex I).

B. Costs to the Bank

The Bank has put substantial efforts into assisting Belize. A cost analysis suggests that the Bank has incurred larger preparation and execution costs than it has in comparator country groups (Box 4 in Annex I).[66] In addition, on a per capita basis it has invested more financial resources—including all its SG and non-sovereign guaranteed operations—in Belize than in all comparator groups, except the Caribbean region (Table 3.5 in Annex I). In technical cooperation, in particular, the Bank invested approximately US$22 for each Belizean citizen between 2008 and 2012, almost 2.5 times the amount it invested in the Caribbean region, the comparator group with the second highest figure.

Nonetheless, the Bank does not seem to be making commensurate efforts at the point of most direct contact with the country. Despite the Bank's recent decentralization, its representation in Belize is very small: it has six staff—including the Country Representative, one sector specialist, and a financial management specialist—nine consultants, and six outsourced employees. As a result, on a per-staff basis the number of operations approved between 2008 and 2012 is higher for Belize than for the comparator groups (Table 3.6 in Annex I). Along the same lines, the latest audit of the country office's operational and administrative processes reports a lack of segregation of duties due to insufficient staff.[67] Moreover, Management points out in that report that the matrix of fees applicable to national staff and consultants in Belize may be out of line with the market, making it difficult to attract and retain qualified personnel. Consistent with this, some Belizean counterparts indicated that the country office has a high turnover of personnel, many of whom are young and lack experience. All of this suggests that the representation potentially lacks the capacity to meet the needs of the Bank's collaboration with Belize.

C. Costs to the Country

The costs that the Bank's collaboration implies for its borrowing members are varied and difficult to measure. They include the additional financial fees and interests incurred because of project delays, the time spent by GoB employees in preparing and executing projects, and any additional externalities that may result from the Bank's activities. The Bank must be aware of these costs, and should try to measure and reduce them. The issue may be particularly important in Belize, given its limited scale (which implies that costs of the same dollar value are proportionally larger) and absorptive capacity (which implies that even a small number of projects could give rise to costs that are not present in other countries).

Belize must still use Bank systems for the execution of projects financed by the Bank—and it is likely to be a long time before its national systems will meet the standards set by the Bank. As mentioned above, the fact that project executing units often have little

Belize's economic activity is highly concentrated in just a few sectors: tourism, agriculture—mainly sugar cane, citrus fruits, and bananas—and, more recently, petroleum.

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knowledge about the Bank's systems and procedures may delay project execution, with consequent financial and economic costs.

Also, the repeated attempts to comply with Bank fiduciary policies and even the normal execution of projects may in some cases add substantial work to GoB employees, who may already be stretched with their ordinary activities.[68] Some figures may help to illustrate this. The GoB comprises approximately 9,700 employees—including teachers, police officers, and health personnel (Figure 3.4 in Annex I)—but the number of people in top- and medium-level positions is very limited (Figure 3.5 in Annex I). For instance, according to the OVE survey, in fiscal year 2010/2011 the Ministry of Finance had approximately 16 senior and medium-level officials (Table 3.7 in Annex I). Thus, even though the GoB may be large relative to the country's economy and labor force, it is small in absolute numbers, particularly in terms of senior positions.

In addition to carrying out the same core activities as any government, Belizean public officials are occupied with the dialogue with development agencies and the execution of their operations—which, on a per capita basis, is a larger responsibility in Belize than in other countries. Between 2008 and 2012, the IDB alone approved 29 operations, which is equivalent to over 87 operations per million people. In the other comparator groups, the Bank approved many fewer operations—from 26.5 per million people in the Caribbean region to 5.7 for the Latin America and Caribbean Region without Belize (Table 3.8 in Annex I).

All of this points to the costs of executing Bank operations, which could be considered unavoidable in the short run, given the number of operations currently in execution. However, there are other costs to the country that the Bank creates and that could be avoided. These arise mostly from project delays due to lack of coordination; frequent changes in team leaders, with consequent disruptions in execution; probable inconsistencies in fiduciary advice; and even incomplete project design—operation BL-L1013, for instance, did not carry out all the necessary feasibility studies during preparation.

In the education sector various goals were achieved, such as the creation of the National Teaching Services Commission and a less unequal distribution of funds between rich and poor schools.
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4 Results of Bank operations

The CSB and the subsequent programming documents presented a series of operations aligned with eight strategic objectives.[69] Progress toward achieving these objectives was partial, mostly because many of the operations were only recently approved, but also because of problems with design or execution and because of macroeconomic conditions in the country. Still, because of the Bank's collaboration Belize achieved some sizable outputs in public sector management, land administration, health, education, targeting of social programs, and rehabilitation of transport infrastructure.

A. Contributions at the CSB level

The CSB included a logical framework to monitor the Bank's progress toward its strategic objectives. The framework was updated through the subsequent Country Program Documents, with the addition of a strategic objective and a series of operational objectives and indicators aligned with the CSB objectives (Table 4.1 in Annex I).

The original and updated versions of the logical framework have medium evaluability levels. At the CSB level, the updated logical framework presents eight strategic objectives associated with 24 expected results and 25 progress indicators. At the operational level, the logical framework includes 68 indicators. By matching both sets of indicators, OVE found that 6 of the 25 CSB progress indicators do not have corresponding operational indicators, and 39 of the 68 operational indicators do not have corresponding CSB indicators (Table 4.2 in Annex I). In terms of metrics, 19 of the 25 CSB indicators and 63 of the 68 operational indicators have baseline and target values (Table 4.3 in Annex I).

The Bank's work between 2008 and 2012 produced some relevant outputs (Table 4.4). The Bank's assistance has been instrumental in the progress in public financial management, including the implementation of a medium-term fiscal framework (MTFF). OVE also found improvements in land management and sector planning capacity, especially in tourism, under the completion of a long-term Master Plan. The Bank's intervention after Tropical Depression 16 was effective in the rehabilitation of basic infrastructure; and there have been positive achievements in health, education, and social protection, including the implementation of a Single Information System of Beneficiaries.

Despite these positive results, two caveats need to be stressed. First, attribution is hard to establish, and especially in social sector operations. In health and education, for example, positive trends in some of the indicators could be observed before the execution of IDB operations, and other development agencies like the UN and the CDB supported programs in these areas concurrently with the IDB (Figure 2.4). Second, the medium- and long-run sustainability of many of the results achieved or expected is threatened by the lack of appropriate financing. In public services, some operations lack a defined or sound cost recovery mechanism,[70] and in infrastructure works, maintenance budgets are far from optimal.[71] This concern, also raised in the previous CPE and acknowledged by the CSB (GN-2520-2, Annex V.5), is particularly problematic given the GoB's weak fiscal position. Nevertheless, it must be noted that the most recent operation (BL-L1013) includes the development of a maintenance management system and a public awareness campaign, among other related outputs.

B. Contributions at the operational level

The evaluability of operations approved between 2008 and 2012 is medium-high and has improved over the previous strategy period. The main weaknesses observed are insufficient indicators for all specific objectives, and insufficient baselines (Table 4.5 in Annex I).

Between 2008 and 2012 there were 45 active operations—12 loans, 24 technical cooperations, 4 MIF and 2 IIC operations, and 3 Compete Caribbean grants (Table 2.2). Execution of many of these operations has only started, and thus they have few or no results as yet. Therefore, this evaluation focuses on those operations that had disbursed at least 50% of their resources as of June 2012 (Table 4.6 in Annex I). As the Bank has concentrated its work with Belize on a few sectors, the evaluation groups the operations in thematic clusters.

Table 4.4. Summary of Results - Outputs

Project	Goal	Main Outputs Achieved So Far	Attribution to the Bank	Sustaintability Assessment*	Source
Public Sector Management					
Strengthening Results Based Management in the Public Sector (BL-T1005)	Improve the quality of public sector investment through better planning and use of medium-term, performance budgeting	- Financed and helped in design *Horizon 2030* - Review of frameworks governing the Auditor General Office and the public procurement system - Action plan to address weaknesses identified in PEFA (with *BL-L1004*)	High	Medium	*Horizon 2030* Final Report, consultant's reports, and Bank's operational documentation
Strengthening Belize's Fiscal Transparency and Responsibility (BL-T1034)	Strengthen the GoB's institutional capacity to promote transparency, accountability, external scrutiny, and oversight in the conduct of fiscal policy	-Fiscal transparency and responsibility framework (FTRF) and regulations (FTRR) approved	High	High	Official documents from GOB and Bank's operational documentation
Social Policy Support Program (BL-L1004)	Enhance fiscal transparency and responsibility for fiscal sustainability	-Medium-term fiscal framework (MTFF) approved -Fiscal transparency and responsibility framework (FTRF) and regulations (FTRR) approved -Framework to guide the planning and management of public investment & an action plan to implement it -Action plan to address weaknesses identified in PEFA (with *BL-T1005*)	High	Low	Official documents from GOB and Bank's operational documentation
Land Management					
Land Management Program III (BL-L1008)	Consolidate and expand land management services country-wide, thereby improving access to these services and their quality and efficiency	-Cadastral survey of two and a half districts completed -Helped unified the two registry systems prevailing in the country (in those areas) -Parcel-based land administration system established	High	Medium	Progress reports, consultants' reports, and Bank's operational documentation
Social Sector					
Health Sector Reform program (BL0014)	Raise the health status of the population by improving the efficiency, equity, and quality of health care services	-Four health regions created (*as expected, though not yet financially autonomous*) -NHI covers 95% south-side Belize City and 84% of elegibles in Toledo and Stann Creek (above targets) -Maternal, infant and neonatal mortality rates decreased, as did the annual incidence of tuberculosis and HIV/AIDS decreased (*as expected, but see table 4.9*)	Low	Medium	PAHO PCR

Project	Goal	Main Outputs Achieved So Far	Attribution to the Bank	Sustaintability Assessment*	Source
Social Policy Support Program (BL-L1004)	Improve the quality and coverage of primary health care to the most vulnerable population, the quality of teachers and equity in secondary education financing, and the capacity to target, coordinate, monitor and evaluate social services.	-Children immunization rates mostly improved (*as expected*) -Prenatal care visits and NHI coverage of the eligible population in Toledo and Stann Creek increased (*above targets*) -National Teaching Services Commission created -Net enrollment in secondary education increased in Southern districts (*above target*) - More qualified secondary teachers (*above target*) - Less unequal distribution of funds across schools -Single Information System of Beneficiaries designed and implemented in Southern distrcits	Medium	Medium	PAHO Ministry of Education, Youth and Sports PCR
Basic Infrastructure and Tourism					
Emergency Road Rehabilitation Program (BL-L1010)	Rehabilitate, stabilize and protect road infrastructure affected by flood damage (TD 16)	-Rehabilitation of the six planned works accomplished (*as planned*)	High	Medium-Low	Field Visit & Interviews PCR
Sustainable Tourism (BL-L1003)	Support the consolidation of the overnight tourism market	-Tourism Master Plan (TMP) completed -Tourism Sector Taxation Review completed -Infrastructure works very much advanced in three out of four destinations	High	High	Field Visit & Interviews TMP PPMR
Private Sector					
TTFP for Atlantic Bank (BL-L1012)	None	-Eight import financing transactions closed	High	High	Field Visit & Interviews QRR
Mentoring Model to Develop Young Entrepreneurs (BL-M1002)	Improve and extend the outreach of the youth entrepreneurship model	-104 entrepreneurs trained -94 business proposal sumitted (*40% above planned*) -Delinquency rate reached 70% of the portfolio	High	Low	PCR PPMR
Institutional Strengthening of the Credit Union Sector (BL-M1004)	Improve the overall strength of the CU system and its ability to deliver quality financial services	-Development of six management and planning manuals -New financial products launched -Six CUs improved their financial performance indicators and met prudential standards (*a number slightly smaller than planned*)	High	High	Field Visit & Interviews Credit Union League PPMR
FINPYME	Help SMEs become more competitive and improve their access to potential sources of financing	-13 SMEs participated and obtained a diagnostics review (*above planned*) -Six training workshops for an average of 15 SMEs each	High	High	Belize Invest

Source: OVE based on the indicated sources
*It reflects OVE's assessment on the likelihood of the outputs achieved so far, being sustained in the long-run

1. Public sector management

The Bank has been working with Belize on improving its public management since before the CSB was approved. During 2008-2012, three operations worked to create an MTFF, develop the GoB's planning capacity, and establish the legal principles of fiscal transparency and responsibility. An additional, long-term objective of this work has been to reduce the fiscal upward pressure on interest rates.

The Bank's approach had *de facto*[72] two prongs. First, two nonreimbursable technical cooperations (BL-T1005 and BL-T1034) financed the staff training and consulting services necessary to produce drafts of the desired legislations and frameworks.[73] Second, the fifth component of a PBL operation (BL-L1004) set as conditionalities for disbursement the approval of these legislations and frameworks. As a result, by 2010 Belize had in place an MTFF; a framework to guide the planning and management of public investment and an action plan to implement it; and a fiscal transparency and responsibility framework and regulations. Operations BL-T1005 and BL-L1004 also combined to produce an action plan to address the main public financial management weaknesses identified in the PEFA assessment of 2009.[74]

Operation BL-T1005 also helped Belize design a long-term planning framework—*Horizon 2030*, delivered in June 2011—which is expected to provide the overarching structure within which to design future development plans. In addition, the Bank financed a review of the legislative framework governing the Auditor General Office, a review of the country's public procurement system, and various training courses for public officials (Table 4.7 in Annex I).

Finally, for many of the operations, effectiveness in terms of development outcomes can hardly be determined at this point as the outputs have not been used (e.g., *Horizon 2030*) or need a longer time for their effects to be observable (e.g., the fiscal transparency and responsibility framework and regulations). In other instances, however, there is evidence of a lack of effectiveness. The MTFF was included in the budget presentations for fiscal years 2010/2011 and 2011/2012 but not in the budget presentation for FY 2012/2013. By requesting debt restructuring, the country further demonstrates that it has abandoned—at least temporarily—the medium-term path set in the previous budget presentations.

2. Land management

During the CSB period, the Bank's work on land administration in Belize made substantial progress. As of 2012, three related operations had been approved: Land Administration Project (BL0007, 1997-2001), Land Management Program (LMP) II (BL0017, 2001-2010), and Land Management Program III (BL-L1008, 2009 to the present). Since these projects have been linked to one another, the Bank's contribution in this area can best be assessed by looking at them together.

This series of projects began with the objective of establishing a land management system and increasing land tenure security. Implicit in the original design of the system was also the intention of improving the country's land revenue system. The projects' objectives have not always been fully achieved and, as a whole, the projects took longer—and required more resources—to deliver than what was originally planned. The land administration system was not well conceived from the beginning and thus in at least two instances had to be rescoped as projects were being executed. In addition, the projects faced important execution problems, some arising from the country's limited capacity. First, the cadastral surveying was delayed, partly because the country did not have enough surveyors trained to use modern surveying techniques.[75] Second, the launch of the information system that is being put in place has not gone smoothly because of the limited technical capacity of the staff operating it[76]—an issue that jeopardizes sustainability and that the project has tried to mitigate through training.

It is important to mention that significant progress was made during 2008-2012. The Bank's decision to make LMP III a much narrower project than LMP II—a highly ambitious project—seems to have been the right one. Instead of further stretching the country's limited capacity and continuing with the trend of underachievement shown by the previous two operations, LMP III has concentrated on completing pending work and ensuring a high-quality output.

Altogether, a sizable part of the country[77] now has an accurate cadaster (Table 4.8 in Annex I); property rights have been clarified; the two registry systems prevailing in that part of the country have been unified; and a sophisticated, parcel-based land administration system capable of processing all land-related services offered by the GoB has been established. In addition, land revenues increased significantly around the time LMP II was executed (Figure 4.1 in Annex I). Yet these projects have failed in reforming the country's land policies and in improving the country's land planning capacity.

3. Social sectors

During 2008-2012, the Bank also worked on health, education, and social protection.

Health. The Health Sector Reform program (BL0014) closed in 2010 after 10 years in execution.[78] It supported the system's decentralization toward four health regions and autonomous hospitals, investments in infrastructure and equipment, and the creation of the National Health Insurance (NHI) Fund to finance a package of basic services—although this component was excluded from the program in 2003 when the GoB took over the financing of the Fund.[79]

There are indications that the reform achieved some positive outputs. In terms of access, since 2006 the NHI covers roughly one-third of the population, reaching the areas where poor people are concentrated.[80] In these pilot areas, coverage reached

95% of Belize City's population and 84% of the eligible population in Toledo and Stann Creek[81] in 2009, up from less than 45% in 2002. From an epidemiological perspective, OVE's validation suggests that the annual incidence of tuberculosis and HIV/AIDS decreased. Results for maternal, infant, and neonatal mortality rates are less clear, since they depend on the indicator and source used (Table 4.9 in Annex I).

Nonetheless, the operation was not designed to meet Belize's specific needs. It lacked an assessment of the governmental and market failures that led to the need for reform and instead mainly followed the blueprint of health reforms financed by the Bank between 1995 and 2005.[82] As a result, some of the reforms it proposed were not consistent with the Belizean context.[83] The program succeeded in establishing four health regions, but they are not yet financially autonomous and there is no evidence that efficiency improved. In fact, interviews suggest that the administrative decentralization multiplied the bureaucratic structures and increased inefficiency, which is of particular concern in a small country with limited capacity. Moreover, the program failed to implement a national and sustainable health care financing scheme. According to the Pan American Health Organization,[84] the rollout of the NHI to the rest of the country and its sustainability are uncertain because there is no clear midterm financing scheme[85]—a situation that continues to this day. In addition, the reform was not accompanied by an increase in the number of doctors per capita, and equity in the distribution of health professionals in rural areas is still a concern.[86]

The Bank also worked toward "strengthening primary health care for poor, vulnerable populations," in the context of the PBL operation BL-L1004 (Social Policy Support Program). However, some of the conditions set by the program were too vague to guarantee achievement of objectives (Table 4.10 in Annex I). For example, condition 1.1a asked for "the implementation of concrete administrative measures to increase enrollment" in the NHI, with which the country complied by presenting a list of (mostly) nonadministrative actions—e.g. meetings with village leaders and school visits—some of which were undertaken before the PBL entered the pipeline.[87] In addition, the Bank may have lost an opportunity to improve the fiscal sustainability of the NHI,[88] an issue that has been on the agenda since the early 2000s and is of paramount importance, given Belize's fiscal sustainability problems.

Education and other social services. The PBL BL-L1004 also worked on secondary education—seeking to improve coverage, ensure equitable funding across schools, and enhance teacher quality—and on the targeting and monitoring of social services, aiming to improve the provision of information to, and targeting of, beneficiaries and ensure evaluation of the services. The conditions associated with these components are more specific than those for health, and results are generally positive. In education, all six expected outputs were achieved, including the creation of the National Teaching Services Commission, an increase in the net enrollment rate in secondary education in the southern districts, more qualified secondary teachers,[89] and a less unequal distribution of funds between rich and poor schools. In terms of social services, the

Single Information System of Beneficiaries was designed and registration targets in the south of the country were met; however, monitoring and evaluation targets were not achieved.

Taken as a whole, the PBL ended with mixed results.[90] On the one hand, it delivered most of its outputs, and while some of the conditionalities were not well defined—hence compliance with them does not guarantee a high likelihood of obtaining the desired development objectives—others were. On the other hand, some of the reforms pushed by the operation did imply additional fiscal costs and therefore were in tension with the fiscal sustainability objectives of the operation. The expectation that the reforms would be fiscally neutral because of efficiency gains seems to have been overoptimistic,[91] and the fiscal cost of creating the National Teaching Services Commission was not contemplated.

4. Basic infrastructure and tourism

During 2008-2012, the Bank gave Belize significant support for basic infrastructure. It approved four loans in this area: an IRF operation (BL-L1010) to rehabilitate roads and other basic infrastructure damaged by a major flood in 2008, a project to manage the solid waste from the cities and villages along the country's central east-west corridor (BL-L1006), a water and sanitation program in Placencia (BL-L1015), and a program to mitigate floods in the northern area of Belize city (BL-L1013).

These operations are still too young to show results. The only exception is operation BL-L1010, Emergency Road Rehabilitation Program in Response to Flooding Events Caused by Tropical Depression No. 16 in October 2008, which closed in 2010. The project was supposed to offer an immediate response to the disaster, yet it was approved nearly six months after it happened[92] because the GoB had to create a legal instrument to declare "disaster areas" in compliance with IRF conditions, and because confirmation was needed that the country had the fiscal space for an IRF loan.

The amount approved—US$5 million—represented approximately 42% of the initial damage assessment, which is more than 20 percentage points higher than the average of the 14 IRFs approved by the Bank since 2000 (Table 4.11 in Annex I). Because of the nature of the instrument, no specific objectives were pursued, and the Bank missed an opportunity to increase a highly vulnerable country's resilience to extreme weather events. Rehabilitation works were completed satisfactorily;[93] however, during a field visit OVE noted the deterioration of some of the works because of insufficient maintenance. As noted above, sustainability is a concern in Belize, since few resources are put into infrastructure maintenance.[94]

The core of the Bank's work in the area of tourism is the Sustainable Tourism Project (BL-L1003), which seeks to increase "the contribution of tourism to national economic growth…[through] the consolidation of the overnight market."[95] It plans to achieve this in two ways. First, it is financing the construction of touristic infrastructure—such as parks and welcome centers—in four popular destinations in the country. Works are nearing completion in three of the four destinations, but results cannot be observed yet.[96] Second, the project seeks to strengthen Belize's institutional capacity in the tourism sector. Most notable among activities dedicated to this purpose are the elaboration of the Tourism Sector Taxation Review and the National Sustainable Tourism Master Plan, which the Cabinet is expected to endorse shortly.

5. Private sector

The work with the Belizean private sector took place mostly through the MIF, the IIC, and Compete Caribbean. The IDB's only operation with the private sector was a Trade Finance Facilitation Program guarantee for US$1 million to the Atlantic Bank (BL-L1012), approved in 2009. Under this facility, the Atlantic Bank closed eight import financing transactions. Since the operation was considered successful, the guarantee was increased to US$3 million in 2012. This operation is well aligned with the CSB because it seeks to lower the domestic cost of financing—the main constraint to economic growth identified by the CSB.

Two MIF operations and one technical assistance program from the IIC were also oriented in that direction. Operation BL-M1002, Mentoring Model to Develop Young Entrepreneurs, was the MIF's second attempt[97] to implement this scheme in Belize. The nonreimbursable part of the operation fulfilled its output targets, training and business mentorship (Table 4.12 in Annex I); however, the reimbursable component, which provided financial support for youth business initiatives, was cancelled after 40% of the funds had been disbursed, leaving behind a high delinquency rate in its portfolio.

Operation BL-M1004, Institutional Strengthening of the Credit Union Sector, sought to strengthen the institutional capacity of Belize's Credit Union League and thereby improve credit unions and the financial services they provide to micro and small enterprises. The project met most of its output targets, including the development of six management and planning manuals and the launching of new financial products. Since one credit union left the league, the number of credit unions that improved their financial performance indicators and met prudential standards was slightly smaller than planned—6 vs. 7 and 6 vs. 8, respectively.

The third operation related to access to credit was launched in 2009 by the IIC in the context of the FINPYME Program. According to the IIC 2009 Annual Report, 13 SMEs participated in the program and obtained a diagnostics review, surpassing the aspirational target. The program also included six training workshops for an average of 15 SMEs each.

In spite of having an economically advantageous location, Belize faces high internal transport costs because of its limited infrastructure, particularly its low density of paved roads and air transport infrastructure.
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5 Concluding Comments and Recommendations

A. Closing considerations

This report started with a characterization of Belize as a small state. The objective was to bring attention to some of the country's structural challenges whose implications for economic development the Bank does not appear to fully recognize. Indeed, among other characteristics, small states such as Belize lack the economies of scale that have been found to be important for economic development, and they are highly vulnerable to economic and climatic shocks. The Bank has several small developing states among its borrowing members,[98] yet it does not have a strategy to tailor its collaboration to their special challenges. This affects the Bank's relevance in these countries.

As part of the same problem, the CSB for 2008-2012 does not seek to direct the Bank's efforts toward helping Belize overcome the challenges posed by its scale. Particularly noteworthy are the limited concern about and work toward integration—to help overcome the limitations of country scale—except through commerce, and, to a lesser extent, the little emphasis on reducing the country's vulnerability to climatic shocks and change.

This does not imply that the Bank's work over 2008-2012 was not relevant. The Bank did identify and direct its work to various important development challenges such as public sector management, land regulation, health, education, infrastructure, and citizen security. Moreover, it responded to important shocks suffered by the country—Tropical Depression 16 in 2008 and, to a lesser degree, Hurricane Richard in 2010. Also, the Bank has recently dedicated resources from the Action Plan for C and D Countries facility to increase local capacity in project management, a decision that is likely to yield good results in terms of reducing the country's human resources capacity constraint.

However, the Bank's actions were not always consistent with the GoB's debt sustainability, as determined by the CSB. When Belize started this strategy period, it had recently restructured a major fraction of its public debt. Despite the GoB's efforts to maintain fiscal discipline, the various shocks to the country and the nationalization of two large utility firms undermined its already fragile fiscal condition. In that context and even though the country was not showing signs of improvement, the Bank increased its financial envelope to Belize by almost 40%. This decision did not add to the country's financial problems because execution has been slower than anticipated and net loan flows have remained roughly within the CSB's baseline scenario.

Belize also has limited capacity in terms of human resources and institutions. It is not clear that the Bank took this into account when it decided to approve nine loan operations in four years. Signs that the country's capacities are probably being exceeded were observed during the last strategy period. As a result, the execution of Bank operations in Belize tends to be costlier—and perhaps slower, as suggested by completed operations—than in other countries. This can be expected in small states with limited capacity, and the Bank does well to accept higher relative costs of collaboration with Belize than with larger countries. In fact, the Bank should analyze the possibility of increasing its in-country presence. Doing so would allow the Bank to improve the execution of its operations—for example, through more stable fiduciary advice and more training on project management—and reduce the costs that working with the Bank implies for the country.

Although there is no specific measure of those costs, they could be large relative to Belize's capacities. The Bank would do well to measure and reduce them. One way of doing so is through coordination, both within the IDB and across development agencies. Although coordination among development agencies is a responsibility of the GoB, perhaps because of limited capacity, it does not seem to be performing this task fully. As the only multilateral development bank with an office in the country, the IDB could assist the country with this task; a stronger representation would likely be necessary.

Belize is often presented as a country that has grown at a rapid pace and has reached per capita GDP levels that place it among middle-income countries. This description is true, but it misrepresents the situation. Belize faces various large obstacles in its way to economic development. In addition to the challenges posed by the lack of economies of scale, limited capacity, and vulnerability, the country is restructuring a high level of debt; the result may be an important alleviation of fiscal pressures but also may set a precedent that makes it more difficult to access international financial markets. Belize also has high rates of poverty, unemployment, and violent crime. More than half of its people are under 25 years of age and have low levels of formal education. Belize is located in an area with a high presence of organized crime, and its main economic sector—tourism—is very sensitive to security conditions. Natural disasters and climate change could have large negative effects on tourism and agriculture—its main productive sectors—including the submersion of large parts of the cays and Belize City.

B. Recommendations

In light of the challenges faced by the country and the findings of this evaluation, OVE makes the following recommendations:

- Dedicate more efforts toward increasing the country's integration. One way for the country to overcome its limitations of scale is to integrate with other countries. The natural regions to integrate with are Central America, Mexico, and the Caribbean, but integration with countries from other regions would also be possible. Integration should go beyond trade to include areas such as insurance against weather-related events, financial markets, and high-cost sectors such as specialist education and health. The country already has some integration and collaboration agreements, including in some of these areas; the Bank could help Belize identify other areas with large potential benefits and foster the development of agreements.

- Dedicate still more efforts toward reducing the country's vulnerability, understood in an ample sense. The Bank should continue to help Belize identify key policies and infrastructure works that would reduce its vulnerability to natural disasters, including extreme weather events or climate change, and could help design the appropriate policies or finance the construction of infrastructure works. The Bank can also increase its efforts—in coordination with other actors working in the country—toward helping Belize form a comprehensive, well-coordinated social safety net. Finally, by promoting integration, the Bank could help Belize diversify its export destinations, including tourism.

- Work within the limits of the country's absorptive capacity, in terms of institutions and human resources. The Bank should continue to study the country's institutions, regulations, and human resources endowment to help it strengthen the weaker parts and avoid overloading them with operations. This requires close coordination with other development agencies so as to avoid a "tragedy of the commons" type of problem. It also implies being selective and prioritizing operations.

- Ensure that all Bank operations are consistent with the debt sustainability analysis performed by the CSB. OVE reiterates this recommendation from the previous CPE, since the country's financial conditions have not improved substantially, and an increase in the financial envelope took place in these circumstances.

- Reduce the costs the Bank imposes on the country. The Bank should try to measure how costly it is for Belize to execute Bank-financed operations and then work to reduce those costs. But even without such a measurement, the Bank can take some actions to reduce those costs: (i) improve coordination, both among IDB operations and with other development agencies (coordination among development agencies is the responsibility of the GoB, but the IDB should assist if the GoB is not able to do it—of course, keeping the GoB involved in the process); (ii) be particularly careful to avoid delays in project execution; and (iii) as per recommendation 3, be selective and engage only in those areas where the country's capacity is not likely to be exceeded.

- Consider increasing in-country presence. The greater coordination efforts recommended above, as well as enhanced execution support to the country, require a larger presence of the Bank in the country. OVE recommends that Management look for ways to achieve this, either by strengthening the representation or otherwise. Even if this should imply higher costs, the Bank should weigh them against the needs of the country.

In addition to these recommendations for the Bank's work in Belize, OVE suggests that the Bank as a whole review the way it works with small countries. This exercise could include, for instance, analyzing whether instruments such as the IRF are reaching a good cost-benefit balance in countries where reducing vulnerability is such a high development priority. If applicable, the Bank should consider adopting a strategy that tailors its work to the special development needs posed by these countries' small scale.

Endnotes

Endnotes

1 This figure comes from the 2010 Census. Official population figures vary substantially: in "Main Results from the 2010 Census," the Belize Institute of Statistics reports different figures, ranging from 303,422 to 312,698. The Central Bank of Belize presents the figure as 323,400. Finally, the National Labor Force Survey places total population as of April 2012 at 338,936.

2 World Development Indicators, World Bank. The figure is for 2011 in US$ adjusted for purchasing power parity.

3 The first CPE for Belize (RE-296) recognized this point.

4 CS/WBJTFSS, 2000, p. ii. Other authors make slightly different classifications; see, for instance, Thomas (2007).

5 This figure is obtained by applying the labor force rate from the Labor Force Survey of April 2012 to the population figure presented above.

6 A proportionally large government is typical of small states (see Alesina and Wacziarg, 1998).

7 See Bulmer-Thomas and Bulmer-Thomas, 2012, p. 174.

8 Central Bank of Belize, 2011. Exports to and imports from CARICOM represent 7.3% and 2.3% of the total, respectively. Meanwhile, trade with Central America varies substantially. In 2009, exports to this region represented over 18% percent of the total, while in 2011 they collapsed to only 0.8%. Imports from Central America ranged between 18.8% and 14.8% of the total.

9 These figures come from the Belize Tourism Board, the Central Bank of Belize, and the IMF Article IV 2011, respectively.

10 See CCCRA, 2012 and UNFCCC2, 2011.

11 These figures come from GoB and Caribbean Development Bank, 2010, Country Poverty Assessment.

12 See GoB and CDB (2010).

13 WDR 2009, p. 102. See also Alesina and Spolaore, 2003.

14 According to a growth accounting exercise performed by the IMF, total factor productivity "growth, which was a key contributor in the 1980s (3 ¼ percentage points), has now become negative" (IMF, Article IV, 2011, p. 13).

15 According to the 2010 Census, 38% of the total population is foreign-born, and 77% of it has migrated from Central America, mostly with an agricultural background. See also Bulmer-Thomas and Bulmer-Thomas, 2012.

16 Kuznets (1960), Alesina and Spolaore (1997).

17 See, for instance, the Preface of *Horizon 2030* and the objectives laid out in NICH's Work Plan 2010-2015.

18 Belize is the only Caribbean country enjoying these benefits for both products and, after St. Lucia, is expected to be the most affected when these concessions end. See Mlachila et al. (2008).

19 These figures come from the Belize Tourism Board, 2008, and WTTC, Belize Country Report 2011, respectively.

20 See Hausmann and Klinger, 2007.

21 *Idem*.

22 Source: IMF Article IV, 2004 and Central Bank of Belize, 2012, Major Economic Indicators 2000-2011.

23 DFC's lending was highly concentrated on large borrowers and on the Cayo and Belize districts. Also, most of the loans were directed to the building and construction sector—mainly governmental housing developments—and secondarily to professional services, transport, tourism, agriculture, student loans, and government services (Nogales, 2006).

24 The IDB and the IMF had suggested the closure of DFC.

25 Source: Budget Presentations for Fiscal Year 2007/2008 and 2008/2009.

26 This figure excludes the years 1996 and 2008, when international fuel and food prices caused inflationary bouts.

27 See Bulmer-Thomas and Bulmer-Thomas, 2012.

28 See UNDP (2010).

29 Source: Central Bank of Belize (2012), Major Economic Indicators (2000-2011).

30 The primary balance has been positive since fiscal year 2004/2005. However, the nationalization of two large companies increased the GoB's contingent liabilities (see paragraph 1.25).

31 The United Democratic Party came back into power after 10 years with the People's United Party in power.

32 Oil deposits are expected to be exhausted by 2019.

33 See Budget Presentation for Fiscal Year 2010/2011, pp. 11 and 16.

34 See Budget Presentation for Fiscal Year 2007/2008 and 2008/2009.

35 See Budget Presentation for Fiscal Year 2010/2011.

36 IMF, Article IV, 2011.

37 According to the GoB, Belize Telemedia Limited was acquired to eliminate concessions granted by the previous government (the "Accommodation Agreements") and to eliminate the "shackles" to economic growth that the monopoly represented. Belize Electricity Limited, on the other hand, was nationalized to prevent the rate increases or blackouts that the previous owners had announced (see Budget Presentation for Fiscal Year 2012/2013). Although the compensation amounts are still open cases in court, they range from approximately 6% of 2011 GDP—what the GoB has offered—to 31%, what the former owners are claiming. See Economic & Financial Update, 2012.

38 See Stabroek News, "Belize government wins re-election," March 9, 2012.

39 See, for example, Rao, Suajta, 2012, "What to do with Belize's superbond," Reutersprints.com, February 15.

40 It must be noted, however, that according to Bank rules (GN-2567-2) the CSB would remain in effect until June 2013.

41 There are only five private banks in Belize, of which two hold about 45% of all financial assets. In addition to those five banks, there are 13 credit unions, 6 offshore banks, and a development bank—the DFC (Perez, 2011).

42 Ministry of Finance, Financial Update, June 2012.

43 See Perez, 2011, and Hausmann and Klinger, 2007.

44 Belize joined various international organizations after independence, including the World Bank (1982), the IMF (1982), and more recently the Central American Bank for Economic Integration (2006).

45 These notes served as inputs for a book on Belize's development agenda (see Martin and Manzano, 2010).

46 The CSB explains that high interest rates are also caused by “high reserve requirements, and inefficiency in the financial system” (p. 2).

47 Because programming is a yearly exercise, approvals match programmed operations very closely: only one technical cooperation operation (BL-T1042) was programmed but not approved, and five technical cooperation operations were approved but not included in the programming documents.

48 In addition, 13 previously approved operations were in execution during the period—two SG loans, seven technical cooperations, two MIF grants and one loan, and an IIC loan (Table 2.2).

49 The approval of this and two other loan operations was possible because of the increase in the financial envelope, which took place in 2010.

50 Operations BL-M1002 and IIC’s Finpyme program also provided financing to members of the private sector. In addition, operations BL-T1005, BL-T1034, BL-T1039, BL-T1044, and BL-L1004 have the long-run objective of improving fiscal management and thereby reducing upward pressure on interest rates coming from government expenditure.

51 See paragraphs 4.11 and 4.15, Annex II, and the linked Trade Sector Policy Note.

52 See OVE’s 2012 Evaluation of Transnational Programs (RE-415).

53 See *Horizon 2030*.

54 See, for example, Kaul, I., Grunberg, I., and Stern, M. (1999), Global Public Goods: International Cooperation in the 21st Century, New York: Oxford University Press.

55 See, in particular, GN-2019-2. Also see GN-1817-1, GN-2320, and GN-2520-2.

56 This is what the World Bank defines and recommends as a “low-regret adaptation” option and is also endorsed by Caribsave. “Low-regret adaptation options are those where moderate levels of investment increase the capacity to cope with future climate risks. Typically, these involve over-specifying components in new builds or refurbishment projects. For instance, installing larger diameter drains at the time of construction or refurbishment is likely to be a relatively low-cost option compared to having to increase specification at a later date due to increases in rainfall intensity.” World Bank, “Adaptation Guidelines Notes—Key Words and Definitions,” available at http://climatechange.worldbank.org/content/adaptation-guidance-notes-key-words-and-definitions. See also Caribsave (2012).

57 Preliminary damage assessment conducted by NEMO, cited in BL-L1010’s Project Completion Report.

58 Country Program Document, June 2010, footnote 1. The document is linked to GN-2576.

59 See Amandala, November 5, 2010, “IDB asked to assist with post-Richard relief.”

60 The main document referenced—the 2008-2013 United Democratic Party’s Manifesto, Imagine the Possibilities…— was published before Belize’s 2008 general elections to communicate the UDP’s campaign proposals. Thus it is not a government document. The UDP did eventually win the elections and so it can be presumed that its development plan would be aligned with its manifesto. However, this document contains 17 areas of work with no explicit prioritization. The other two documents—the budget presentations for fiscal years 2008/2009 and 2009/2010—contain four and six priority areas, respectively, that partially match the four “country development objectives” presented in the CSB.

61 See Barnett et al., 2011.

62 Barnett et al., 2011, cite various studies and operations financed by the Bank that were used in designing *Horizon 2030*.

63 See, for instance, BL-L1003, BL-L1006, BL-T1005, and BL-L1013.

64 This division of labor may not be completely under the control of the GoB. In a 2011 document, the GoB notes some "risk of overlap" in the design of the Finance and Audit (Reform) Act in which both the IDB and the World Bank were participating (IDBDOCS#35755614).

65 Belize has very skilled professionals. The issue, however, is that in absolute numbers they are few.

66 OVE used cost data from the Enterprise Data Warehouse. These data present many obvious errors, so they are not reliable enough to present in a table. However, all the tabulations by OVE consistently showed that preparation and execution costs are higher in Belize than in all comparator groups, and there is no reason to believe that the data are systematically biased toward showing higher costs in Belize. In other words, OVE believes these data to be reliable on a qualitative basis.

67 See Management's response to the report's findings and recommendations. IDB, Office of the Executive Auditor (2012), "Audit Report: Belize 2012-Operational and Administrative Processes."

68 Demonstrating whether and to what extent the GoB is actually stretched would require studying it carefully—its personnel, their functions, and the time these activities demand. Such a study is well beyond the objective and scope of this evaluation. The figures presented here are for illustrative purposes only.

69 Seven strategic objectives were included in the CSB and another was added by the 2010 Country Program Document.

70 For example, the cost recovery scheme for the Solid Waste Management Program (BL-L1006) is one of the most challenging aspects of the program, mainly because users appear to be unwilling to pay for the waste management services. In the case of Belize City, for every dollar spent on solid waste management services (street/drain cleaning and collection), 3.8 cents is collected from users. It is also problematic because tariffs have to be negotiated with local councils for the collection, transfer, and disposal of waste; and some councils—like the Belize City Council—appear to be reluctant to charge for transfer and disposal.

71 The annual budget currently allocated for maintenance works is approximately US$ 4.5 million—one-fifth of what it should optimally be. Source: OVE, with information from field interviews, and Abraham (2010) (IDBDOCS# 35320068).

72 The qualification is made because the two-pronged approach is not explicitly stated or described by Management. In fact, operation BL-L1004 does not mention either of the other two operations, even though they were approved before.

73 The IMF also collaborated in the training of GoB staff for the preparation of the MTFF.

74 This output was not originally included in operation BL-T1005, which was approved before the PEFA assessment began.

75 This is not the sole cause; inadequate contractual arrangements also carry a large part of the blame.

76 This judgment is based on OVE's first-hand observations of how GoB staff operated the system as well as on a review of the data recently entered in the system and interviews with staff from the firm hired to build the system.

77 Corozal, Orange Walk, and northern Belize.

78 This represents an extension of 2.5 times the originally planned life of the project, which, according to the project's PCR, increased the financial and administrative costs by 167% and 95%, respectively.

79 Before FY 2008/9, the Social Security Board subsidized the scheme with noncontributory funds, but since then, the Ministry of Health took over financing. The Social Security Board continues to administer the system through the NHI Fund.

80 See http://health.gov.bz/www/health-projects/national-health-insurance. The remaining two-thirds of the population are covered by the national public health system. Also note that in 2001 the NHI was on the south side of Belize City, and was extended to the southern districts between 2005 and 2006, under a geographical targeting system.

81 It should be noted that the PCR does not refer to "eligible population" in the southern districts, but both the BL-L1004 documents and the PAHO report similar enrollment rates based on the eligible population of Toledo and Stann Creek.

82 See RE-324, "Health Sector Evaluation 1995-2005," OVE, 2006.

83 For example, the project supported performance-based contracting, an approach that required a sophisticated regulatory framework absent in Belize, where "human resources are not trained to provide solid regulation and planning guidance." See RE-324 for more details on the framework required for a performance-based contracting system. Interestingly, the project stated that "hospital and central authorities will learn how to design, monitor and enforce such agreements" but failed to explain how they would do it.

84 See PAHO (2009), "Health Systems Profile Belize – Monitoring and Analyzing Health Systems Change / Reform," p. 20.

85 The GoB decided not to levy a special payroll tax, as initially agreed.

86 See PAHO, 2009. According to this source, the number of doctors per capita went down from 9.8 in 2001 to 8.2 between 2007 and 2008. The number of doctors per capita and equity in the distribution of health professionals in rural areas were not targeted by operation BL0014; however, they are relevant factors that could have been affected by the reform.

87 See IDBDOCS# 7018855.

88 The issue was certainly in Management's mind as the PBL was being negotiated since, according to an aide-mémoire from an identification mission of October 2007, it was originally planned that the PBL would require the contracting of "a financial sustainability analysis of the NHI universal coverage" and "the approval by the House of Representatives of the financing plan for the universal coverage" (IDBDOCS# 1316184).

89 The Bank is now working to help Belize improve the quality of its teachers through TC BL-T1049, Enhancement of the Belize Teaching Force. This Bank-executed project is developing mechanisms to increase teachers' educational level, including piloting and evaluating two training modules.

90 The results of the Social Policy Support Program are expected to be consolidated by a technical cooperation operation (BL-T1024, Implementing the Social Agenda of the National Poverty Elimination Strategy) that is now in execution.

91 According to Management, social outcomes could be fiscally neutral because of increases in "both targeting and the efficiency and effectiveness of social spending" (PR-3432). However, interviews conducted for this evaluation indicate that public officials were mostly uncertain about the financial impact of the reforms.

92 This is almost at the upper bound of OVE's definition of an emergency period (RE-264) and is more than five times slower than the emergency loan approved for Belize in 2000 (BL0018).

93 This is the opinion OVE received during its interviews, and it was reported in the operation's PCR.

94 For example, the current budget allocated to road and bridge conservation is approximately US$4.5 million, according to one GoB official interviewed. This is less than 2% of what is required, according to the estimates made in "Belize Road Network Study on Maintenance Needs," financed by BL-L1010.

95 See loan document of operation BL-L1003. The loan was prepared with the support of a technical cooperation (BL-T1011), which financed the prefeasibility and feasibility studies for the operation.

96 There are indications that results of these works will take longer than anticipated to be achieved. This is because of the international financial crisis and the consequent fall in demand for tourism but also because of a conflict with another Bank operation (BL-L1015).

97 The first attempt was in 1997, with operation ATN/MH-5590-BL.

98 The Bahamas, Barbados, Belize, Guyana, Suriname, and Trinidad and Tobago are typically recognized as small states. Even though its population is much larger, Jamaica is also considered a small state by the Commonwealth Secretariat/World Bank Joint Task Force on Small States because it "share[s] many characteristics of small states" (Commonwealth Secretariat, 2012).