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BELIZE

GLOBAL CREDIT PROGRAM FOR SAFEGUARDING THE PRODUCTIVE SECTORS AND EMPLOYMENT

(BL-L1037)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Eduardo Sierra (IFD/CMF), Project Team Leader; Juan Martinez Alvarez (IFD/CMF), Alternate Team Leader; Daniel Fonseca, Jaiwattie Anganu, Sylvia Andrade, Isabelle Braly-Cartillier, Claudia Marquez, Karina Azar and Cynthia Martinez (IFD/CMF); Giovanni Leo Frisari (CSD/CCS); Brodrick Watson and Christian Lunstedt (VPC/FMP); Linsford Coleman (INO/SMC); María Deza, Astrid Salazar, Alexis Bryant, and Hero Balani (CID/CBL); Aurelie Gilles (CID/CID); Maria Del Campo (SPD/SDV); Enrique Barragan and Alvaro Sanmartin (LEG/SGO).

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ABBREVIATIONS	
BELTRAIDE	Belize Trade and Investment Development Service
BZ	Belizean Dollar
CBB	Central Bank of Belize
CDB	Caribbean Development Bank
COVID-19	Coronavirus disease 2019, the disease caused by the 2019 novel coronavirus
CR	Credit Regulations
DFC	Development Finance Corporation
EA	Executing Agency
ESMR	Environmental and Social Management Report
GDP	Gross Domestic Product
GEPAP	Gender Equality Policy and Action Plan
IDB	Inter-American Development Bank
IDBG	Inter-American Development Bank Group
IFI	Intermediary Financial Institutions
IMF	International Monetary Fund
IRR	Internal Rate of Return
LAC	Latin America and the Caribbean
LEG	IDB Legal Department
MSME	Micro, Small, and Medium-sized Enterprises
NPL	Non-Performing Loan
OC	Ordinary Capital
PAHO	Pan American Health Organization
SIB	Statistical Institute of Belize
SME	Small and Medium Enterprises
SPF	Safeguard Policy Filter
TC	Technical Cooperation
WHO	World Health Organization
WMSMEs	Women-owned or Led MSMEs
WTO	World Tourism Organization

PROJECT SUMMARY
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<tr><td colspan="3">Borrower and Executing Agency:</td><td colspan="2">Flexible Financing Facility[a]</td></tr>
<tr><td colspan="3">Development Finance Corporation (DFC)</td><td>Amortization period:</td><td>25 years</td></tr>
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<tr><td>Source</td><td>Amount (US$ Million)</td><td>%</td><td>Interest rate:</td><td>LIBOR-based</td></tr>
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<tr><td>Currency of approval:</td><td>Dollars of the United States of America</td></tr>
<tr><th colspan="5">Project at a Glance</th></tr>
<tr><td colspan="5">Project objective/description: The general objective of this project is to support the sustainability of Micro, Small and Medium Enterprises (MSMEs) as employment providers in Belize amid the COVID-19 crisis. The specific objectives are: (i) to support the short-term financial sustainability of MSMEs; and (ii) to promote the economic recovery of MSMEs through access to production-oriented finance.</td></tr>
<tr><td colspan="5">Special contractual conditions prior to the first disbursement of the loan proceeds: As a special contractual condition prior to the first disbursement of the loan proceeds, the Credit Regulations (CR) will have been approved and entered into force in accordance with the terms previously agreed upon with the Bank (¶3.12).</td></tr>
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[a] Under the Flexible Financing Facility (document FN-655-1), the borrower has the option to request modifications to the amortization schedule, as well as currency, interest rate and commodity conversions. In considering such requests, the Bank will take into account operational and risk management considerations.
[b] Under the flexible repayment options of the Flexible Financing Facility (FFF), changes in the grace period are possible as long the Original Weighted Average Life (WAL) and the last payment date, as documented in the loan agreement, are not exceeded.
[c] The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors during its review of the Bank's lending charges, in accordance with the relevant policies.
[d] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
[e] GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problems addressed, and justification

1.1 **Background.** On March 11, 2020, the World Health Organization (WHO) declared the Coronavirus Disease 2019 (COVID-19) outbreak a pandemic. COVID-19 is an infectious disease caused by a novel coronavirus called Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-CoV-2). As of July 11, 2021, the WHO reported more than 186.2 million confirmed cases in 216 countries, resulting in more than 4 million deaths.[1] Almost 73 million cases of COVID-19 and 1.9 million deaths have been reported in Latin American and the Caribbean (LAC), affecting almost all countries of the region.[2] Despite the fact that Belize had a good control of the COVID-19 pandemic during the early stages, a second wave in the summer of 2020 had a substantial impact and it is currently, one of the most affected countries, in terms of cases and deaths in the Caribbean.[3] Vaccination began on March 1, 2021. As of July 11, almost 24.5% of Belize's population have received at least one shot and the country has received two shipments of vaccines provided through the Covax Facility. However, Belize remains exposed to the pandemic in the short term as it has only secured vaccines for about half of its population.

1.2 **Challenges created by the COVID-19 crisis.** Belize is a small (419,000 inhabitants) tourism-based economy that entered the COVID-19 pandemic with a decelerated growth and low per capita income relative to regional peers of Central America.[4,5] The Belizean economy relies heavily on services, which accounted for 50% of Gross Domestic Product (GDP) in the 2011-2019 period, while agriculture encompassed close to 10% of GDP. Despite the fact that the health emergency has recently been controlled, the crisis created by COVID-19 has resulted in severe social and economic challenges that are still remanent. Due to the COVID-19 pandemic, the economy contracted 14% in 2020 and the outlook for 2021 is only a modest recovery of 1.9%.[6]

1.3 Belize is highly vulnerable to fluctuations, external shocks, and natural disasters thus, the COVID-19 pandemic has had a strong impact on the national economy, particularly in the travel and tourism sectors which represent 10.3% of GDP and 37.2% when considering indirect spillovers to other sectors.[7] Tourism accounts for 30% of total employment and is the main source of international reserves, which are needed to sustain the fixed exchange rate.[8] According to the World Tourism Organization (WTO), the number of visitors in Belize from 2010 to 2018 oscillated between 0.9-1.3 million per year.[9,10] The coronavirus pandemic has halted tourism

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1 See WHO COVID-19 Coronavirus Disease (COVID-19) Pandemic & COVID-19 Situation Reports.
2 Pan American Health Organization (PAHO) - Status Report (July 11, 2021).
3 As of July 11, 2021, there are 13,518 cases and 330 deaths reported in Belize.
4 During the period 2013-17, the economy grew 1.9% on average, accelerating to 2.9% in 2018 and slowing down to 1.8% in 2019, due to the severe droughts and a moderation of tourism due to safety concerns. This performance was insufficient to drive meaningful improvements in citizen well-being whereby GDP per capita remained at US$4,699 in 2019.
5 GDP per capita diminished from US$4,699 in 2019 to US$3,944 in 2020 and unemployment is estimated at 13.7% of total labor force, according to the Labor Force Survey (LFS).
6 World Economic Outlook, IMF, October 2020.
7 IMF Article IV (June 2021).
8 World Tourism Organization (WTO). Research Economic Impact.
9 WTO, Tourism Statistics (February 2021).
10 International travel resumed in October 2020; however, arrivals remain extremely low.

arrivals in 2020 and as it has through out the beginning of 2021, as the pandemic led to a 72% decrease in overnight tourist arrivals (see OEL#11).

1.4 There are some additional risk factors that affect the declining economic outlook in the short and medium-term. In the short term, economic activity and capital inflows are affected given that most tourists who visit the country come from Europe or North America,[11] two of the regions most affected by the pandemic. Therefore, the recovery is expected to be slow as there is still uncertainty about the duration and severity of other potential pandemic waves that can happen in the next months. This negative outlook could be extended as far as the second semester of 2021. An International Monetary Fund (IMF) forecast indicates that the GDP output of 2019 may be regained only in 2025.[12] In the medium-term, the worsening of the world's economic situation may also impact the inflow of FDI and remittances, which account for approximately 10% of GDP.[13]

1.5 **Macro and fiscal outlook.** As a consequence of COVID-19, fiscal revenues are falling, and expenditures are rising. The pandemic worsened the country's already fragile fiscal position: due to the halt in tourism, primary and overall balances are estimated at 6.7% and 9.8% of GDP in 2020, and debt levels raised to 127.4% of GDP. Without a meaningful fiscal consolidation and debt restructuring to reduce the debt burden, the medium-term overall deficit will remain at about 5% of GDP keeping the debt ratio close to 130% of GDP, levels considered unsustainable by the IMF. Based on the IMF's recommendations, the government is designing a local strategy to achieve fiscal consolidation, reduce the debt burden and strengthen fiscal institutions.

1.6 **Natural disasters and climate change vulnerability.** The United Nations Framework Convention on Climate Change (UNFCCC) recognizes Belize as one of the most vulnerable countries to the adverse impacts of natural disasters and climate risks, as Belize's most important economic activities are highly vulnerable to external and weather-related shocks. Among small states, the IMF ranks Belize as 3rd at risk for natural disasters and 5th at risk from climate change. Since 2015, Belize has faced severe and extended drought conditions, that have triggered significant losses in agricultural production where such weather-related plagues cause critical economic impacts for the food production sector and the economy as a whole. In 2019, the country has been affected by the impact of one of the longest droughts in recent memory, leading to losses of more than US$25 million in crops and livestock. At the end of 2020, major flooding hit Belize due to Hurricanes Eta and Iota, leaving economic damage for an equivalent of 0.4% of GDP, according to the National Emergency Management Organization (NEMO) estimates. Losses from natural disasters, on average, surpass 1% of GDP per year and the estimated probable maximum loss from natural disasters is 50% of GDP.[14] In this context, the COVID-19 crisis constitutes an additional economic shock in a prolonged succession of negative events affecting the country. Considering these challenges,

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[11] Two thirds of visitors were coming from the United States.

[12] Current forecasts predict a mild growth of 1.9% in 2021, a recovery of 6.4% for 2022 and an average growth of 2.7% in the 2023-2025 period.

[13] Data World Bank, 2019. Average of the last five years.

[14] World Bank, 2018. Advancing Disaster Risk Finance in Belize.

improving the resiliency capacity of the economy and its productive sectors is also extremely important.

1.7 **Current constraints on access to finance for Micro, Small, and Medium-sized Enterprises (MSMEs) in Belize.**[15] MSMEs are estimated to be approximately 17,000 firms (98%) that contribute to 45% of GDP and 32% of total employment (70% of private-sector employment).[16,17] MSMEs continue to suffer from a number of financial constraints, such as: (i) the absence of records and internal procedures to generate financial information on their activities and operations; (ii) the low levels of capitalization and the lack of guarantees and collateral; (iii) high levels of informality; (iv) higher operating costs for Intermediary Financial Institutions (IFIs) to lend at small scales; and (v) the lower profitability compared to other business segments. These constraints limit MSMEs' ability to take full advantage of economic opportunities in the local and regional markets during the economic recovery after the economic crisis generated by COVID-19.

Table 1. MSME definition in Belize

Factor	Micro	Small	Medium
Employees (Full time)	<5	5-19	20-50
Annual Sales (Belize $)	<50K	<500K	<1.5 million
Investment	<50K	<500K	<1.5 million

Source: Belize MSME Policy and Strategy Report, BELTRAIDE (2012).

1.8 Before the economic crisis caused by COVID-19, MSMEs already faced significant obstacles to growth, particularly in terms of access to credit (OEL#8). Before the pandemic, 63.6% of Belizean MSMEs declared that access to finance was a major constraint. MSMEs in the country also reported that: (i) the proportion of working capital financed by Banks was only 18.3%; and (ii) the purchases of fixed assets finance from bank loans was merely 18.1%.[18] A study by the SME Finance Forum in 2018 found that the estimated financing gap among formal MSMEs in Belize is approximately US$462 million in unmet credit demand (equivalent to 26% of GDP). In fact, according to the World Bank (WB) Doing Business 2020 Report, access to finance is the main limitation for doing business in Belize. The country is ranked 173 out of 190 countries under the "getting credit" category and did not perform well in the following indicators related to credit and capital markets development: registering property transfers, protection of legal rights, protection of minority investors, enforcing contracts, resolving insolvency.

1.9 The difficulties faced by MSMEs in obtaining credit through the Belizean banking system has worsened due to the economic contraction of 2020 (see OEL#8). Given the mobility restrictions and the shock to tourism flows, only 7% of businesses were operating in normal circumstances, while 12.7% have closed and 35% were temporarily out of business, with micro and small firms being most affected.[19]

15 See OEL#10, and OEL#12.

16 Belize Trade and Investment Development Service (BELTRAIDE).

17 According to the 2016 National Business Establishment Survey by the Statistical Institute of Belize (SIB), 77% of businesses were classified as small being sole proprietorships with 73% reporting revenues of less than US$40,000 annually.

18 Versus 32.2% for LAC-26 and 12.1% for Organization for Economic Co-operation and Development (OECD). World Enterprise Survey, 2019.

19 Beltraide (May 2020). COVID-19 Rapid Private Sector Economic Impact Assessment Report.

Additionally, some estimates indicate that 95% of tourism firms have been impacted by the pandemic, most of them being small and medium firms.[20] Other sectors that were deeply affected by the crisis were agriculture,[21] fisheries,[22] and wholesale and retail. According to a survey done by the Statistical Institute of Belize (SIB) later in November 2020 (OEL#7), 61.3% of establishments reported that they had been highly impacted by decreased demand for their products and services and similarly, 64.3% indicated that they had been highly impacted by reduced weekly revenues. More than a quarter of businesses reported that they did not know how much longer they could continue operating under present conditions, and 22% indicated that they could not remain either fully or partially operational for any period if current conditions continue.

1.10 **Financial supply.** The financial system in Belize comprises 4 domestic private commercial banks (64.5% of assets), 4 international (offshore) banks (7.7% of assets), 8 credit unions (20.4% of assets), 10 domestic insurance companies (5.5% of assets) and the state-owned Development Finance Corporation (DFC) (2.0% of assets). Domestic credit extended to the private sector averaged about 54% of GDP, but the high cost of credit (6% of net bank interest margin) and high bank spreads (7% between loans and deposits) are important constraints limiting access to credit and economic growth.[23] Bank credit is the main source of financing for large businesses, while credit unions and moneylenders in the informal sector tend to finance smaller investments and MSMEs. Given that personal, construction, and mortgage loans have historically represented two-thirds of total credit in the system, this concentration of loans crowds out other more productive segments of the economy, such as manufacturing, tourism, and agribusiness, that together represent less than 20% of total loans.

1.11 The Belizean financial system entered the pandemic with a healthy level of solvency enabling it to cope with adverse scenarios, but the slump in economic activity limits its capacity to increase its lending to MSMEs. In 2020, financial institutions in Belize were maintaining high solvency and liquidity ratios with primary capital to risk-weighted assets averaging 18.6% and liquid assets to short-term liabilities of 38.5%, respectively. The Central Bank of Belize (CBB) is continuing efforts to reduce the level of Non-Performing Loans (NPL) to under 6%, although the NPL rate rose from 5.1% to 7.7% and the nonfinancial sector portfolio is likely to continue deteriorating during 2021, especially as households remain unemployed and firms pare back their activity in the sectors worst affected by the economic slowdown. Not only will the impact be felt in a deterioration of the loan portfolio, but the financial system is also likely to see its investment portfolios deteriorate and experience higher funding costs. Although the financial sector is resilient to this type of adversity,

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[20] According to the Hotel Association, at the height of the pandemic 99% of the hotels were closed due to no tourist arrivals in the country and second due to the government curfew. This resulted in 65% of the staff in hotels in Belize being terminated.

[21] In terms of agricultural output, MSMEs account for over 70% of the main export crops and an even higher percentage of domestic food crops.

[22] The Fishing industry decreased by 42.3% during the fourth quarter of 2020, mainly due to a sizeable drop in both shrimp and lobster meat exports.

[23] Global Findex, 2019.

this scenario poses special challenges for meeting the demand for credit by MSMEs in the current situation.[24]

1.12 The difficulties faced by MSMEs in obtaining finance in the financial system are not set to improve due to the weak economic recovery expected for 2021. The main problem faced by MSMEs in the current context is the lack of liquidity to cover fixed costs and maintain jobs when faced by an abrupt reduction in their operating income. Access to credit for working capital and the purchasing of fixed assets will become crucial for the survival of businesses which –given the economic downturn in the second semester of 2020– will not be able to rely on their internal funds for much longer. Most MSMEs businesses are cash-flow dependent and highly-leveraged, and some fixed costs like maintenance, management and security cannot be deferred. Therefore, the perceived credit risk of the MSME segment increases; and the financial system doubles down on liquidity preference instead of continuing to lend to MSME customers that are experiencing economic hardship. These combined effects, if not addressed, may trigger the permanent closure of businesses and insolvency, and a concomitant loss of jobs, making it impossible for them to pay suppliers, workers or to meet their financial commitments. Furthermore, the limited development of MSMEs in the future may discourage the creation of new enterprises and the possibility of growing the number of dynamic enterprises operating in the local economy.[25] However, it is important to highlight that, when provided with adequate financing, MSMEs can be highly flexible in adapting to an economic recession, as they are less affected by inertia, rigidity and sunk costs, and more capable of exploiting market niches.[26]

1.13 **Green financing needs for a sustainable recovery.** The crisis caused by COVID-19 has generated a new approach to sustainability focused on the progressive reduction of emissions in the supply chain. Green financing in adaptation and mitigation investments represents an opportunity to transition the region's productive sector towards a low-carbon economy. The banking sector occupies a strategic position to influence the protection of the environment through directing the flow of capital towards greener projects and companies to ensure environmental sustainability, however, its role in the region is low compared with other regions. While 95% of international banks already offer some green financial product such as loans or mortgages, in the region only 49% do so. Among the barriers that stand out within the Belizean banking sector to increase the supply of green financial products and services for MSMEs are the lack of: (i) capacities to identify opportunities among its customer base and to measure the demand for green products and services; (ii) incentives in regulatory frameworks to offer green products; and (iii) access to green financing from international sources. In this context, public policies have an important role to play in stimulating the supply of green credit to the productive sector.

1.14 **Women-owned or led MSMEs (WMSMEs).** It is estimated that 24% of firms in Belize are WMSMEs. In addition to the described systemic difficulties faced by firms in the country, women entrepreneurs face a more severe impact due to the COVID-19 crisis and more limitations to access credit. From a productive

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[24] IMF Article IV (June 2021).

[25] See OEL#8.

[26] See Tan and See (1997), Gregory et al. (2002), and Narjoko and Hill (2007).

perspective, WSMEs are more present in the services and tourism industries in the country, which are the economic sectors most affected by the crisis. In terms of access to finance, and while there is a lack of adequate sex-disaggregated data to understand the situation of WMSMEs at the national level, the pre-COVID financing gap affecting WMSMEs was estimated at US$64 million, representing 14% of Belize's total formal MSME finance gap, a larger proportion than the LAC average of 9%.[27] Similarly, it was estimated that around 45% of WMSMEs were partly credit-constrained prior to the crisis, versus 42% of those owned or led by men. Gender gaps are also observed in DFC's business lending portfolio: as of March 2021, WMSMEs represented 16% of the total amount of loans in the productive portfolio, with an average loan size of BZ$9,451, compared to BZ$15,120 for those MSMEs owned or led by men.[28]

1.15 Although the lack of sex-disaggregated data and analyses prevents an accurate diagnosis of the specific barriers faced by WMSMEs in Belize, the available international and regional literature shows that women entrepreneurs face more barriers from both the demand and supply side. For example, women tend to own or accumulate fewer assets that can be used as collateral, and their businesses are often concentrated in sectors where the collateral is less available, such as the services sector. There are also supply-side constraints, such as gender biases (conscious and unconscious) in the practices of financial institutions and the lack of financial products and services with a suitable value proposition for women entrepreneurs.

1.16 The finance gap faced by WMSMEs and the existing gender gaps have been exacerbated by the crisis. This situation needs to be addressed to avoid reducing the participation of WMSMEs and highlights the importance of including a gender perspective in relevant public financing programs. Institutionally, the DFC has achieved an important, albeit recent, progress in this regard by designing a Gender Equality Policy and Action Plan (GEPAP), which aims to contribute to the sustainable development and growth of Belize through improved access to financial services for Belizean women and men, and focuses on three priority areas: (i) gender lens investing; (ii) human resources and leadership; and (iii) partnerships and learning.[29] The GEPAP has yet to be implemented but represents a key enabling factor to incorporate an adequate gender perspective in DFC's operations, mainly through the priority area related to gender lens investing includes actions to: (i) mainstream gender into loan cycle for all sectors; (ii) develop new financial products to address unmet needs and engage in emerging areas; and (iii) promote mainstreaming gender lens investing approach into the value chains of business.

1.17 **Challenges and progress.** Throughout LAC, support for the MSME sector is considered particularly critical in confronting the crisis. A key economic policy objective in the context of a profound but temporary shock is to prevent liquidity problems leading to firms becoming insolvent, with the consequent irreversible loss of capital and jobs for the economy. In shielding the productive sectors of Belize from the economic hardships associated with the COVID-19 crisis, the challenge

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[27] MSME Finance Gap Report, 2017.

[28] DFC's sex-disaggregated portfolio, March 2021.

[29] Development Finance Corporation Gender Equality Policy and Action Plan 2020-2023.

will be to keep as many MSMEs open that were commercially viable before the crisis, avoid short-term insolvencies, and enable these firms to gradually resume normal operations once the health emergency is over (see OEL#11 and OEL#14). When the market fails to respond, governments tend to step in with measures that foster and remedy the lack of liquidity and investment while assuaging the risk perceptions of financial institutions, particularly with regard to the MSME segment.

1.18 **Government measures to support the economy (OEL#6).** In Belize, the response to the COVID-19 emergency has involved the conceptualization of macro-prudential measures and fiscal programs. On the former, policies were devoted to: (i) maintain the health of the financial system and the flow of credit; and (ii) grant financial relief to indebted firms, especially MSMEs. On the fiscal side, support measures have been focused on increased healthcare spending, accelerated payment of unemployment insurance claims (with IDB support), and increased welfare outlays for households ineligible for unemployment benefits. Regarding the support to MSMEs, statutory cash requirements were reduced and risk-weights for banks on loans in the tourism sector were reduced from 100% to 50%. Recently, a law was approved to allow the CBB to aid with emergency programs and facilities in the form of credit facilities or asset purchases, with a fund of US$25 million (1.5% of GDP) targeting companies hard hit by the pandemic. The government is also proposing the creation of a Contingencies Fund to provide support during economic difficulties. In particular, the Government of Belize launched the MSME Support Program, for US$7.5 million in mid-2020 (0.5% of GDP) to provide working capital loans to affected firms; to date, about one-third of MSMEs applied to the program.

1.19 In the response to supporting MSMEs during the current crisis, Belize has been channeling resources through the Development Finance Corporation (DFC). DFC was created in 1963 and since then has been critical to improving MSME access to financing (¶3.2-¶3.3). In the response to the current crisis, DFC has been playing a pivotal role in the government measures for preserving MSME access to credit listed in ¶1.18 and OEL#6. DFC has been given the fiduciary responsibility for supporting MSMEs. In May 2020, the country signed with the Caribbean Development Bank (CDB) an ammendment of a previous loan for the DFC which allows the reallocation of US$3.5 million from the existing 8th Consolidated Line of Credit. This reallocation was used for working capital loans to MSMEs affected by the COVID-19 during 2020.

1.20 Although Belize has deployed rapid measures to support MSMEs, it faces a major challenge in underpinning their financial sustainability and the employment they generate for the economy. The country's financial sector suffers from constraints in providing the full flow of financing that MSMEs require, and this problem is expected to become more acute in view of the economic contraction of 2020 and the expected deterioration of the MSME credit portfolio of financial institutions. In order to avoid breaking the chain of financing for MSMEs in times of financial system stress, one of the international policy measures most widely adopted, and considered to be the most effective, is credit through public development banks to sustain the supply of credit. The objective of credit programs through public development banks is that financial intermediaries continue to provide financing to MSMEs when: (i) it is more difficult for them to access external funding; (ii) they are less willing to lend in the face of heightened credit risk; (iii) they have to allocate additional funds for debt rescheduling or restructuring; and (iv) MSMEs themselves have less in the way of assets to provide as their own collateral to access credit.

1.21 **Proposed intervention.** In support of the public policy measures adopted by Belize to support the economy and, in particular, to ease MSME financing constraints and promote a more sustainable economic recovery, the proposed intervention will strengthen financial sustainability of MSMEs, building upon the previously mentioned programs (¶1.18-¶1.19). As indicated above, the financial sector in Belize is facing a series of constraints to provide all the financing that MSMEs will need to endure the effects of the COVID-19 crisis, both in the short term, to ensure MSMEs' immediate survival, and in the medium-term, to stimulate a rapid recovery of economic activity and employment in the country. The proposed program, therefore, seeks to ease the constraints in access to credit faced by MSMEs affected by the COVID-19 crisis, in order to support their survival and preserve the jobs they generate for the economy. This, in turn, will minimize the burden on social protection systems and maximize the speed of economic recovery during 2021 and 2022, while also promoting investments in sustainable and resilient activities that could perform better in the event of new natural disasters and worsening climate impacts. The intervention will be executed by the DFC, which will receive support from the Bank to improve its capacity to provide credit resources to MSMEs directly and through eligible Intermediary Financial Institutions (IFI).

1.22 The proposed program will target MSMEs in the economic sectors that comprise DFC's MSME portfolio. However, the program will maintain a multisectoral approach, it will seek to support the hardest-hit sectors of the economy (¶1.9), such as the tourism, agriculture, and fisheries industries where DFC has also more experience (¶3.2). The vulnerability assessment (OEL#9) carried out by the IDB also indicates that MSMEs from the tourism and hotel sectors are the most affected, followed by agriculture, fisheries, and wholesale and retail, which are the main sources of employment and consumption. In this context, a credit mechanism would provide extra resources to MSMEs and thereby encourage financial institutions to participate more intensively in supporting that sector, thus ensuring that the private financial sector directly contributes to the stabilization and recovery of the productive sector. The availability of additional credit resources provides three decisive benefits: (i) it enables MSMEs to finance their cash flow in making their business viable in the short and medium-term; (ii) it provides financial institutions with low-cost funding which provides incentives to overcome certain risks associated with financing the MSME segment; (iii) it allows the economy as a whole to benefit from the ability of MSMEs to continue operating in the medium-term, using social security benefits to alleviate the impact of business closures and job losses, and creating conditions to facilitate a faster economic recovery; and (iv) support a more resilient and sustainable economic recovery from the crisis through financing investments for climate adaptation and mitigation in vulnerable sectors (OEL#2).

1.23 **Bank's experience and lessons learned.** The Bank has extensive experience designing sovereign multisector loan programs aimed at improving MSME access to finance through financial intermediaries. In the last financial crisis faced by the region in 2007, the Bank played a countercyclical role by expanding the amount of financing and facilities used to address the lack of access to credit faced by the region's MSMEs, and by supporting fiscal expansion and the development of social programs for the most vulnerable people. Liquidity programs for growth sustainability were approved in 2008 and 2009[30] with the aim of reestablishing access to finance for working capital and foreign trade in the productive sectors.[31]

1.24 The Bank has extensive experience in developing global credit programs with development financial entities such as the current one. In the last decade, the IDB developed multisectoral programs with public financial institutions in Brasil (BR-O0001), Colombia (CO-O0004), and Uruguay (UR-X1011) among other countries. In Belize, IDB Lab is conducting an operation also executed by DFC and focused on financing productivity investments "EcoMicro - Development Finance Corporation - Green Finance for Renewable Energy and Energy Efficiency for MSMEs" (ATN/CN-17454-BL), providing a US$350,000 technical assistance to pilot and test green finance for the implementation of Renewable Energy/Energy Efficiency (RE/EE) investments under an Energy Performance Contracting (EPC) approach in partnership with Energy Service Companies (ESCOs). This IDB Lab project targets MSMEs primarily in the productive sectors of Belize, including manufacturing, agriculture, aquaculture, and tourism.

1.25 **Lessons learned.** The IDB has generated substantial knowledge and lessons learned from the operations mentioned above (¶1.23-¶1.24) regarding the design and implementation of policies to support MSME finance with a special focus on certain sectors or value chains. For MSME access to credit public policies to be effective, it is crucial that credit programs: (i) identify the market failure to be addressed; (ii) strengthen cooperation among public and private sector actors with expertise in the relevant areas since the latter can help find solutions to problems and avoid market distortions; (iii) have an adequate institutional capacity for rapid resource allocation; (iv) identify the financial instrument or set of instruments that can be implemented in each situation; and (v) utilize the most cost-effective combination of instruments for each situation.

1.26 The Bank also has relevant experience in designing solutions to mitigate the problems of access to finance faced by MSMEs and value chains. The following lessons have been learned from these actions as a whole: (i) leverage the countercyclical role of this type of operation in times of tightening credit; (ii) target resources toward segments where lending will have greatest impact on the functioning of the economy (logistics chains) and the well-being of society (the most vulnerable productive sectors) (¶1.36); and (iii) supervise the financial terms on which the resources are allocated to end-users, to avoid market distortions and ensure that there is no dilution of additionality (OEL#4).[32]

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[30] In 2008, the IDB created the Liquidity Program for Growth Sustainability under the category of emergency lending (GN-2492-1).

[31] This helped to temporarily offset part of the deficit in financing flows to MSMEs resulting from the international financial crisis. With the same objective of stimulating the supply of credit to the productive sectors, the period following the crisis (2009-2013) saw the approval of contingent credit lines[31] for providing liquidity to the financial sector, as well as global multisector credit programs and—by far the majority—specific productive financing programs for MSMEs, OEL#1.

[32] Section IV of the Support to SMEs and Financial Access/Supervision Sector Framework Document (GN-2768-7) discusses a more extensive and detailed set of lessons learned from the Bank's experience in the sector, as well as the experience of other multilaterals, academic researchers, and other major stakeholders in public policy design to support MSMEs.

1.27 **Coordination with other Bank projects.** By providing resources to ease the constraints on access to finance faced by MSMEs, this program will complement other IDB Group operations in Belize. In particular, the previously mentioned IDB Lab's current initiative (ATN/CN-17454-BL). Furthermore, the present program would also complement the multisectoral support the Bank has been providing to Belize to respond to the pandemic and mitigate its socio-economic impact. More precisely in the form of: (i) transfers to vulnerable households affected by the Coronavirus (US$12 million);[33] and (ii) a US$6.2 million reformulation of "Sustainable Tourism Program II" (3566/OC-BL) to address the sanitary crisis caused by the pandemic[34]; and (iii) a US$5 million combined loan/guarantee operation to support vaccine purchases (through COVAX) and deployment.[35] Additionally, regarding MSMEs financing, IDB Invest approved four operations for a total of US$52.82 million, with operations in trade, tourism, agribusiness and energy.[36,37] Synergies will be pursued with IDB Invest and IDB Lab during program execution, to provide MSMEs with financing solutions during the emergency.

1.28 **Coordination with other multilateral and/or cooperation agencies.** This program is aligned with the IMF's recommendations provided in the last Article IV consultation mission in Belize, stating that a key priority for the country is to enhance the business climate by improving access to credit for Small and Medium Enterprises (SMEs). Additionally, during 2020, the IDB was the biggest development partner to support the COVID-19 emergency in Belize, providing US$18.2 million for the health sector and to support vulnerable populations (Unemployment Relief Program) as well as reallocating resources from other projects, followed by the World Bank, with emergency support for US$10 million to provide short term emergency cash to households, the CDB (US$7 million) and OFID, with contributions to the Food Assistance Program. The IDB holds regular coordination meetings with the main financing institutions (IMF, CDB, WB, Central American Bank for Economic Integration (CABEI)), to discuss the portfolio and ensure the complementarity of the programs.

1.29 **Strategic alignment.** The intervention is consistent with the Second Update to the Institutional Strategy (AB-3190-2), and is aligned with the challenges of: (i) Social

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33 "Support to Safety Nets for Vulnerable Populations Affected by the Coronavirus in Belize" (5056/OC-BL), the program was fully disbursed as of September 23rd, 2020, and the final report is currently under preparation. Furthermore, under this program the Bank financed part of the Unemployment Relief Program (URP) created by the government to support vulnerable households affected by the pandemic, providing cash transfers to 32,856 persons and digital solutions for registration and payment of benefits.

34 The program has disbursed 98% of resources as of July 2021. Specifically, with the reformulation of this project the IDB financed: (i) the procurement of test kits for the diagnosis of COVID-19, as well as enzymes and supplies for PCR tests, which helped strengthen the country's testing capacity; (ii) equipment for the operation of temporary detection and waiting areas at 3 points of entry: the Phillip Goldson International Airport, the northern border in Corozal and the western border in Cayo; and (iii) the purchase and deployment of vaccines.

35 The loan/guarantee operation was signed May 17, 2021, and it has not disbursed resources as yet.

36 Three long-term loans, totaling US$41 million, aimed to support the solvency of SMEs in the hard-hit tourism sector as well as their environmental and social management system; the employment and sustainability of the sugar industry; and cleaner energy. One Trade Finance Facilitation Program (TFFP) operation, for US$11.82 million, aimed to provide liquidity for export and import transactions through the financial sector.

37 Specifically, as part of that support, in December 2020, IDB Invest granted a loan to Atlantic Bank Limited for US$20 million to promote the growth of Atlantic's MSME portfolio in the tourism sector, which was deeply affected by COVID-19.

Inclusion and Equality, as the proposed interventions will contribute to the support of MSMEs and employment in the most vulnerable sectors; and (ii) Productivity and Innovation, through support for productive financing for MSMEs and strategic value chains. The program is also aligned with the crosscutting issues of: (i) Gender Equality, since it will strengthen the DFC's institutional capacity to serve women's MSMEs more effectively while also encouraging the targeting of resources exclusively to this segment to address gender gaps (¶1.31); and (ii) Climate Change. According to the joint methodology of Multilateral Development Banks (MDB) approach on climate finance tracking, 30% of total IDB funding for this operation result in climate change mitigation activities to promote a sustainable economic recovery. This contributes to the IDBG's climate finance goal (30% of the annual approval volume) (¶1.32). The operation is also consistent with the strategic focus area of resource mobilization, through the proposed mechanisms to stimulate the mobilization of private financial sector resources for MSME finance, as well as the company shareholders' own funds.

1.30 The program will contribute to the Corporate Results Framework 2020-2023 (GN-2727-12) through the indicators of: (i) jobs supported; (ii) number of MSMEs financed; (iii) number of women beneficiaries of economic empowerment initiatives; and (iv) beneficiaries of enhanced disaster and climate change resilience. It is also consistent with the Support to SMEs and Financial Access/Supervision Sector Framework Document (GN-2768-7), which emphasizes the importance of promoting access to finance by the productive sector. Additionally, the program is in line with the Proposal for the IDBG's Governance Response to the COVID-19 Pandemic Outbreak (GN-2996), as part of the support for safeguarding the productive fabric and employment.

1.31 **Gender considerations.** The IDB is financing a study to evaluate the MSMEs' financing needs during the COVID-19 crisis and gender aspects will be included to start using data to identify and close knowledge gaps related to women entrepreneurs in the country. As part of this program and with resources from the Regional Technical Cooperation (TC) "Support to Economic Productivity and Employment in Latin America and the Caribbean in Response to the Economic Shock Caused by the COVID-19 Pandemic" (ATN/OC-18036-RG), the Bank will support DFC's efforts to improve the collection of sex-disaggregated data and the development of strategies to better reach and serve WSMEs, including the design of products and non-financial services targeting women entrepreneurs and gender awareness training for loan officers[38]. as well as, the implementation of key activities in the DFC's Gender Equality Policy and Action Plan related to mainstreaming gender into loan cycles and develop new financial products to address unmet needs by women (¶1.16). In addition, the program will allocate at least 25% of the resources to financing WMSMEs. As a result of the program and the specific targeting of financing for women entrepreneurs, it is expected that the share of WMSMEs in the DFC's total productive portfolio will be increased to 25%[39] to mitigate the potential widening of the gender gap due to the COVID-19 crisis. Steps will be taken under the Credit Regulations (CR) to correct any significant deviations observed (¶3.10),

[38] In addition to the work in the context of this program, the IDB is preparing a medium-term agenda to support DFC's efforts to strengthen the institutional capacity to assist women and women entrepreneurs.

[39] WMSMEs represented 16% of the total amount of loans in the DFC productive portfolio, with an average loan size of BZ$9,451.

and an action plan will be developed, if necessary, with specific measures for doing so with Regional TC resources (ATN/OC-18036-RG). Further steps will be taken to support DFC's efforts to test pilots and innovative products, which will be included in a regional TC that is being prepared.

1.32 **Climate change considerations. Commitments in national policies and international agreements.** In a scenario of fiscal restrictions, it is necessary to address Belize's major development challenges to achieve strong and sustainable economic recovery from the COVID-19 crisis, that would also be resilient to potential incoming shocks from an international transition to a low carbon economic development, as well as, from ongoing climate change impacts on temperature and precipitation levels, and frequency and intensity of extreme weather events. Rising temperatures and increasing frequency of droughts over the next several decades possess a severe risk to Belize's growth, considering the economic relevance of the agriculture and food-producing sectors, and of its tourism industry. For this reason, Belize's commitments under the Paris Agreement[40] include goals on preserving biodiversity and forested areas, reduction on fossil fuels' reliance for energy generation and transport; and importantly the promotion of climate change adaptation in agriculture (drought-resilient crops and animal breeds), in tourism (coral reef preservation and restoration), and fisheries (protect mangroves and wetlands), (see OEL#13). At a national policy level, Belize has implemented several policies and plans to support investments in sustainable and resilient activities and that provide guidance to the financial sector, including DFC operations: the Sustainable Energy Action Plan, the National Climate Resilience Investment Plan[41] and the National Climate Change Policy, Strategy and Action Plan (2015-2020).[42] This program will support the National Climate Resilience Investment Plan by financing climate change mitigation and adaptation investments by the productive sectors to promote a more sustainable and resilient economic recovery (at least 30% of total IDB funding for this operation).

B. Objectives, components, and cost

1.33 **Objectives.** The general objective of this project is to support the sustainability of MSMEs as employment providers in Belize amid the COVID-19 crisis. The specific objectives are: (i) to support the short-term financial sustainability of MSMEs; and (ii) to promote the economic recovery of MSME through access to production-oriented finance.

1.34 **Single component. Support for MSMEs financing (US$15 million).** The program will provide financing to support MSMEs access to credit resources provided through the DFC and/or IFIs participating in the program. Resources will be used to support economic recovery by providing loans to working capital and production-oriented finance to MSMEs (OEL#8). This intervention is structured as a loan with the following subcomponents:

1.35 **Subcomponent 1.1. Support for improvement of short-term financial capacity (US$3 million).** Resources under this subcomponent will be used to help MSMEs affected by the crisis to overcome temporary liquidity problems and

40 Belize is pleased to present its Nationally Determined Contribution (NDC).

41 National Climate Resilience Investment Plan (NCRIP), Government of Belize, October 2013.

42 A National Climate Change Policy, Strategy and Action Plan to Address Clime Change in Belize, Caribbean Community Climate Change Centre (CCCCC), 2014.

continue operating, being able to comply with their commercial and financial obligations and normalize their business cycle. Credits may support working capital expenses such as, but not limited to, the acquisition of supplies or merchandise, payment of salaries, taxes, utilities, and for any other purpose related to the maintenance and recovery of economic activity in the short term.

1.36 **Subcomponent 1.2. Support for access to production-oriented finance for economic recovery (US$12 million).** Resources under this subcomponent will be used to support economic recovery by providing production-oriented finance to MSMEs. The subcomponent includes credit for investment projects to ensure that MSMEs have the ongoing access to the finance they need to continue operating their businesses, recover from the crisis (including inactive MSMEs that had to close due to COVID-19 but are still economically feasible) or meet increased demand as a consequence of COVID-19. These credit operations will be used for investments related to the purchase of plant, equipment and machinery, the expansion and improvement of productive infrastructure and retrofits for making businesses COVID resilient, the implementation of new technology, techniques, and processes, and refinancing of previous debts when MSMEs are at risk of default and previous credits were already financing productive investments. Resources will also be specifically targeted to finance WSMEs, and will be accompanied by activities to strengthen the DFC capacity to better serve women entrepreneurs, including the design of products and non-financial services targeting women entrepreneurs, gender awareness trainings for loan officers, as well as the implementation of key activities in the DFC's Gender Equality Policy and Action Plan as described in ¶1.16 and ¶1.31. As part of this subcomponent, resources will also support a more sustainable and resilient economic recovery through financing investments for climate adaptation and mitigation in vulnerable sectors such as agriculture, aquaculture (fisheries) and tourism.[43] Additionally, resources will support the resilience of MSMEs to natural disasters.

1.37 **Program administration.** The borrower will bear the executing costs of evaluation and monitoring in all cases. The audit cost of the program will be covered with resources from Subcomponent 1.2 of the program.

1.38 **Beneficiaries.** Resources under this intervention will be directed to MSMEs affected by the COVID-19 crisis, giving priority to the agriculture sector, fisheries and tourism sectors due to their vulnerability to the COVID-19 crisis. The program will be available for MSMEs operating in the country, and it is expected to benefit 240 of these businesses.

C. Key results indicators

1.39 **Expected outcomes.** The program's expected impact is to support the sustainability of MSMEs amid the COVID-19 crisis, as measured by: (i) yearly

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[43] As for climate change adaptation, eligible investments will include water efficient irrigation (drip and sprinkler), drainage systems, drought and disease tolerant crops and animal breeds, water harvesting, soil moisture conservation and erosion control, covered structures for controlled-atmosphere vegetable cultivation. For mitigation, eligible investments might include small solar solutions, solar water heating, solar power pumps and motors, energy monitoring systems, high efficiency air conditioning systems, replacement of lighting fixtures to induction lamps and installation of automatic light switches, fuel efficient transportation and/or hybrid vehicles.

sales revenue at MSMEs ; and (ii) percentage of employment registered in MSMEs over total employment registered in the country.

1.40 The outcome indicators for the program will be as follows:

- Under specific objective 1: (i) rate of NPL of the MSME working capital financing portfolio over rate of NPL of the total financial system, six months after the beginning of the project; (ii) survival rate of companies supported with short-term financing instruments up to 24 months after the declaration of a pandemic due to the COVID-19 disease.
- Under specific objective 2: (i) rate of NPL of the productive MSME financing portfolio over rate of NPL of the total financial system, 24 months after the beginning of the project; (ii) proportion of medium-term credit (more than 36 months) in the relevant portfolio; (iii) percentage of the value of loans allocated to WMSMEs in the productive sector's portfolio; (iv) percentage of the program's relevant portfolio destined to support a more sustainable and resilient economic recovery promoted through financing new investments in climate change adaptation and mitigation; (v) total mobilization of medium-term private resources achieved as a result of program support; and (vi) total amount of the relevant portfolio of production-oriented finance achieved as a result of program support.

1.41 **Economic viability.** The economic evaluation identifies the flows of benefits and costs generated by the program. The benefits consist of the economic value of the reduction in sales revenue losses, the benefits derived from a higher rate of business survival, and the benefits of jobs preserved as a result of the program. Calculations of the aforementioned flows (discounted at a rate of 12%) yield benefits of US$1,859,132 and an Internal Rate of Return (IRR) of 18%. Additionally, the sensitivity analysis performed on key variables indicates that the program's Net Present Value remains positive for a wide range of scenarios. The economic evaluation is compliant with the economic viability framework developed and validated for the COVID-19 interventions intended to safeguard the productive sectors and employment (OEL#1).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 The total amount of the proposed program will be US$15 million from the Bank's Ordinary Capital (OC). The operation will be structured as a global credit program since it involves financial intermediation to the beneficiary MSMEs. The disbursement period will be 24 months.

Table 2. Estimated project costs (US$ million)

Component	IDB	%
Single Component. Support for MSMEs financing	15	100
Subcomponent 1.1. Support for improvement of short-term financial capacity	3	20
Subcomponent 1.2. Support for access to production-oriented finance for economic recovery	12	80

Table 3. Disbursement plan (US$ million)

Source	Year 1	Year 2	Total
IDB	7	8	15
%	**46.6**	**53.4**	**100**

B. Environmental and social risks

2.2 As a financial intermediation operation, in accordance with the Bank's Environmental and Safeguards Compliance Policy (OP-703), Directive B.13, this operation cannot be classified ex ante.

2.3 An Environmental and Social due diligence was conducted in compliance with B.13, analyzing the potential socio-environmental risks of eligible subloans and the Executing Agency (EA) ability to manage those risks. According to the results of such due diligence, this operation is considered as a low risk of Financial Intermediation given the size and nature of the subprojects: (i) small scale subprojects (with average financing of US$50,000 and a maximum of US$500,000); and (ii) dedicated to MSMEs for working capital, investments related to the purchase of equipment and machinery, the implementation of new technology, etc., and sustainable and resilient investments. The eligible subprojects will be classified as Category “C”. Category “A” and “B” subprojects will be ineligible for financing. Resources from the program will not be used to finance any of the following: (i) activities on the IDB’s exclusion list; (ii) activities/sectors that involve higher social-environmental risk; and (iii) activities that entail involuntary physical or economic resettlement, negative impact on indigenous groups, damage to cultural sites or critical cultural sites, negative impact on protected areas or Ramsar Convention on Wetlands of International Importance Especially as Waterfowl Habitat (RAMSAR) sites, or the use of invasive species. The potential socio-environmental risks identified for the subprojects eligible for financing with program resources are of low magnitude and these risks will be managed through the application of an Environmental and Social Risk Management System (ESMS) designed for the program that will be integrated into the CR, whose approval by the IDB is a condition prior to the first disbursement.

C. Fiduciary risks

2.4 There is a medium fiduciary risk. The institutional capacity assessment of the EA shows that the DFC satisfies the necessary conditions to perform fiduciary management activities for the loan operation. The assessment found that the EA has available the necessary administrative, fiduciary and control mechanisms to provide and to maintain a transparent and effective administration of the program. Nonetheless, considering that the DFC does not have prior experience implementing programs with the Bank, this could adversely affect the execution of this program through possible delays and errors with disbursement management and financial reporting. To mitigate this risk, the Bank will conduct coaching sessions with the DFC on financial management policies and procedures of the Bank. Additionally, through a regional TC (ATN/OC-18036-RG) approved to support EAs in the implementation of COVID-19 prototypes, support will be provided to strengthen the institutional capacity of the DFC to implement the program (see the Fiduciary Agreements and Requirements - Annex III).

D. Other risks and key issues

2.5 **Development risk.** There is a medium risk related to the possibility of adverse selection by choosing as eligible beneficiaries, companies that were not viable before the crisis, or that the selected companies do not survive because of the emergency. To mitigate this risk, credit methodologies used by participating financial institutions were reviewed and considered strong, as well as their financial stability indicators (¶1.10-¶1.11). Additionally, there is a medium risk that the economic crisis caused by the COVID-19 pandemic in Belize, particularly, for the tourism sector, could be longer and more severe than initially expected as the IMF is indicating (¶1.4). Particularly, for this sector, the risk is also associated with border closings and disruption of global air transportation during potential new COVID-19 waves, which could also continue having impacts on business operational activities and input prices during 2021-2022. To mitigate this risk, new assistance programs and more public financial resources may be needed to assist firms and employees (¶1.18-¶1.19).

2.6 **Public management and governance risk.** There is a medium risk that the liquidity measures for MSMEs will not reach the sectors hardest hit by the health emergency on a priority basis because IFIs that currently have a situation of high liquidity do not want to assume the risk of financing them, and consequently, the program's impact will be less than expected. The program allows the option that resources can also be executed directly by the DFC in case there is not enough demand from eligible IFIs through the second tier mechanism. Also, the program has been designed in a way that seeks to prioritize some preidentified sectors characterized as more vulnerable (¶1.36), coordinating closely with the country on a diagnostic assessment of vulnerabilities for the prioritization of sectors, and monitoring the program on an ongoing basis to ensure effective targeting.

2.7 **Macroeconomic and fiscal sustainability risk.** There is a medium risk that the combination of the health and economic crisis, as well as external factors such as the slow recovery in tourism activity, will continue affecting the fiscal and debt position of Belize, making the country's fiscal sustainability unfeasible (¶1.4). This risk is mitigated by the efforts the government is taking to strengthen their public finances and reduce the burden of commercial debt, based on the recommendations of the IMF. To further mitigate the economic risk, the Bank, together with the government and other financial institutions, will continue to coordinate regular discussions on a bilateral basis, as well as with other donors, and continue to hold annual meetings with the IMF (¶1.27).

2.8 **Execution risk.** Based on the institutional capacity assessment of the EA, a medium execution risk was identified associated with the response capacity to the growing demand for credit and DFC's monitoring system. To mitigate this risk, the Bank will provide nonreimbursable technical assistance (ATN/OC-18036-RG) in two areas: (i) building the EA's institutional capacity to manage the growing demand for credit that DFC is experiencing in the current economic situation; and (ii) strengthening DFC's monitoring and evaluation system to improve the measurement of the credit program's benefits as a public policy tool for safeguarding the productive sectors and employment in a context of economic recovery.

2.9 **Sustainability.** The program is expected to contribute to easing the temporary difficulties faced by the most vulnerable population and MSMEs as a consequence of the COVID-19 pandemic and to support the economic recovery. Nonetheless, it offers the country the opportunity to leave support mechanisms in place for future emergencies. The demonstration effect of the program is expected to enable other MSME credit-oriented programs to be developed that reduce the perception of MSMEs related risk. As indicated in ¶1.27, there will be a continuation of efforts and collaboration through further programs developed with the government.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 **Borrower and Executing Agency (EA).** The Borrower and EA for this operation will be the DFC. The loan will be guaranteed by the Government of Belize. The DFC, as EA, will be responsible for the administration, execution, control, and monitoring of resources under the operation. DFC will execute the program within the framework of its existing organizational, administrative, and financial structure. Program administration and coordination will be the responsibility of DFC's Credit Department.

3.2 **Development Finance Corporation (DFC).** The DFC is a state-owned development bank that reports to the Ministry of Finance of Belize.[44] DFC's average lending portfolio for the period 2015-2019 has been US$58MM dollars. It is mainly focused on supporting MSMEs financing, in the following sectors: agriculture, manufacturing, agriculture, tourism, housing, construction, and education (see OEL#15). DFC has the operational capacity to offer first and second-tier financial products, given that it is one of the main bodies that provide services to local financial intermediaries such as banks, financial institutions and credit unions incorporated in Belize and regulated by the CBB. DFC has relied on its traditional development partners which include the CDB, the European Investment Bank (EIB), and CARICOM Development Fund (CDF) to finance their credit programs.

3.3 While DFC has suffered financial losses since 2015 (with the exception of 2018 which saw a small profit) as a result of declining loan quality, mainly due to the extreme climate events[45] (¶1.6) and the implementation of stringent loss provisioning, current equity is enough to sustain their current operations as long as NPL and delinquency ratios are kept low. Liquidity and leverage ratios remain above industry standards and DFC has presented a proposal to the Goverment of Belize for an additional equity injection to increase their solvency and lending capacity.[46] As part of its restructuring efforts, DFC has also completed a Strategic Development Plan (OEL#16) which seeks to address issues such as climate resilience and gender equality to have a more relevant portfolio. In 2016, DFC received technical support from the IDB to review their corporate strategy and governance. DFC also

[44] DFC was originally established in 1963 and restructured in 2009 with a new Act which sought to improve the governance structure in accordance with best practices of Development Finance Corporations. The Government of Belize is the sole shareholder. The Board of Directors has nine members including representatives of the private sector. The functions of the Board are articulated in Section 9 of the Act.

[45] As a result of extreme weather events in 2015 combined with pest and diseases outbreak which have created havoc on the agriculture and shrimp industries and thereby affecting DFC's loan portfolio.

[46] DFC has engaged the Government of Belize as its shareholder on a proposal for equity investment aimed at fostering its capital structure to enhance its capacity to provide more financing and in more competitive terms and conditions.

received a Technical Cooperation from IDB Lab in 2019 to support "Green Finance for Renewable Energy and Energy Efficiencies for SMEs" (ATN/CN-17845-RG). Together, these initiatives will enhance the Corporation's capital structure and enable additional funding to support innovative forms of development lending and their COVID-19 recovery program. DFC remains an important conduit to transfer foreign capital from regional and international partners for the country's economic development.

3.4 **Execution and administration.** For the execution of the operation, a segregated account will be created at the CBB that will be used by the DFC to allocate the resources of the program and finance activities of both components. DFC will extend the resources to the eligible IFIs and MSMEs to fulfill the program's objectives, adhering to the provisions of the CR. Disbursements made by the Bank shall be kept in segregated accounts that serve to ensure and provide independence in the use of the program's resources.

3.5 The EA will have fiduciary responsibility for the program's resources and perform the following functions: (i) making disbursements to eligible IFIs for on-lending of the resources to eligible MSMEs to meet the program's objectives under the stipulations of the CR; (ii) making disbursements to eligible MSMEs under the stipulations of the CR; (iii) preparing execution and physical/financial progress reports for the IDB and for auditing; (iv) monitoring compliance with environmental and social safeguards; (v) identifying and monitoring the IDB loan's use of proceeds; and (vi) conducting program monitoring and evaluation.

3.6 DFC will be responsible for the administration, execution, control, and monitoring of resources under the operation. The DFC will also be accountable for: (i) preparing, implementing, and coordinating the Annual Operating Plans; (ii) preparing budgets, project accounting, financial management and reports, and disbursement requests; (iii) coordinating the preparation of technical, progress (semi-annual reports) and financial reports based on the use of the trust resources; (iv) monitoring the progress of program activities and the analysis of variances of actual results against plans; (v) facilitating monitoring and external evaluations of the program and ensuring, in collaboration with the participating entities, that the approved recommendations are implemented; and (vi) serving as a liaison for the program with the Bank.

3.7 **Implementation considerations.** Through the program, DFC will channel credit lines to the financial intermediaries, who will then issue new working capital and investment subloans to MSMEs. The participating IFIs could be any incorporated commercial bank, finance company, trust, finance merchant bank, or credit unions licensed or otherwise authorized to operate in Belize. DFC will also allocate loan proceeds for working capital and investment needs directly to MSMEs. The loans to MSMEs supported with program resources will have a maximum amount of US$500,000[47] or its equivalent in local currency (see CR). Program resources cannot be used to support new loans with the objective of paying for staff-reduction expenses, fines, dividends, acquisition of real estate, except those associated with an investment project or financing shares purchases or other types of transferable securities. Other prohibited uses may be included in the exclusion list indicated in

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[47] The maximum size of US$500,000 is intended for exceptional cases.

the CR. The issuing, management, and repayment of subloans will be based on DFC's existing operational policies and the provisions of the CR. The financial intermediaries with which the EA works will comply with the Bank's criteria (¶3.7 and the CR) to be eligible under the program.

3.8 To be eligible, IFIs must: (i) be one of the financial institutions or credit unions licensed, authorized and supervised by the CBB or the corresponding surveillance and control entity of the financial sector in Belize; (ii) comply with the regulatory requirements in matters of financial conditions (capital, portfolio quality and provisioning, liquidity, governance organization, management, and staffing) accounting, auditing of Belize, the CBB and DFC; and (iii) commit to comply with any other requirements included in the CR.

3.9 To be eligible, MSMEs must: (i) be formally incorporated under the Companies Act of Belize or registered under the Business Names Act of Belize, or legally recognized individual sole traders operating in Belize; (ii) possess the corresponding licenses and permits required to operate under the laws of the country; (iii) meet the requirements to qualify as an MSME in the country (see OEL#12); and (iv) be solvent and creditworthy and satisfy the credit requirements of participating financial institutions, with the exception of any factor that has deteriorated as a result of the COVID-19 crisis.

3.10 **Credit Regulations (CR).** The CR describe responsibilities in the areas of administration, risk management, and coordination between the EA and the Bank, as well as the eligibility criteria for beneficiaries, subloans, and financial intermediaries, terms and conditions of the subloans, and other parameters or restrictions governing the use of program resources. The document also includes agreements for management and monitoring among other arrangements. It also defines the periodicity of monitoring of defined specif targets set by the program.

3.11 **Interagency coordination.** The EA will coordinate with the Ministry of Finance through the DFC's Board of Directors (where the Government has three representatives) so that program funds are executed in agreement with the government's vision and defined planning to promote the economic recovery (¶1.18).

3.12 **Special contractual conditions prior to the first disbursement of the loan proceeds. As a special contractual condition prior to the first disbursement of the loan proceeds, the CR will have been approved and entered into force in accordance with the terms previously agreed upon with the Bank.** This condition is necessary so that the resources can be executed immediately after the first disbursement.

3.13 **Retroactive financing.** The Bank may retroactively finance up to US$3 million (20% of the loan amount) in eligible expenditures incurred by the borrower prior to the loan approval date, provided that requirements substantially similar to those established in the Loan Contract were met. Such expenditures must have been incurred on or after May 13, 2021, when the operation was registered. Currently, DFC has a demand for subloans for a total value of US$3 million that may be recognized as retroactive expenses. Furthermore, eligibility requirements for retroactive expenses will have to meet similar criteria to those established in the CR.

3.14 **Procurement.** As a demand-driven financial intermediation program, no procurement of goods, works, nonconsulting services, or consulting services is likely to be required as part of the execution. No project execution plan or procurement plan is therefore included in this proposal. Any procurement of nonconsulting or consulting services required as part of program administration and/or evaluation will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (GN-2350-15), or as subsequently updated. For additional details, see Annex III.

3.15 **Disbursements.** Resources for the program will be disbursed by the IDB via the modality of advance of funds and/or reimbursements, as established in the Financial Management Guidelines for IDB-financed Projects (OP-273-12) or current IDB policies. Disbursement requests will be accompanied by the information listed in the CR. The resources earmarked for the program will be disbursed by the Bank to the DFC via the segregated account. Disbursements will be made as advances or reimbursements to the segregated account for transfers made to IFIs or MSMEs that have submitted contracts for subloans in compliance with the eligibility criteria established in the program's Credit Regulations. Disbursement verification will be on an ex post basis, subject to on-site review of the subloans. Disbursement requests will be accompanied by the information listed in the CR.

3.16 **Financial statements and audit.** Throughout the loan disbursement period, the EA will submit to the Bank the annual audited financial statements for the program under the terms of reference agreed upon with the Bank, within 120 days after the fiscal year. The audit's scope and related considerations will follow the Financial Management Guidelines (document OP-273-12) and the Audited Financial Reports and External Audit Management Handbook. The final audited financial statements for the program will be delivered within 120 days after the date of the last disbursement. Additionally, the audit will be performed by an audit firm eligible under the procedures established in the current audit guidelines.

B. Summary of arrangements for monitoring results

3.17 **Monitoring.** Program execution will be monitored via six-monthly progress reports prepared by the EA and delivered within 60 days after the close of each six-month period. The reports will be based on the reporting commitments included in the Results Matrix, as well as other information in compliance with the eligibility criteria set out in the CR and REL#1. These reports will be reflected in the Progress Monitoring Reports (PMR).

3.18 **Evaluation.** The evaluation strategy for the program's results follows two different approaches: (i) the development of a reflexive evaluation, before and after the implementation of the program, showing the final achievement of the program's results; and (ii) the development of qualitative analyses, presenting the main weakness, challenges, and measures taken during the implementation of the program, and arriving at the main lessons learned. The evaluation strategy is described in the monitoring and evaluation plan. The EA will bear the costs of evaluation and monitoring in all cases.

3.19 **Information for monitoring and evaluating the program.** The EA will be responsible for maintaining data collection and monitoring systems (REL#1). The EA will commit to maintain a system for monitoring and evaluation of all subcomponents, which will be used to prepare the reports and data delivered to the Bank. For the purposes of the evaluation, the EA will collect, store, and safeguard all information, indicators, and parameters necessary to prepare the Project Completion Report (PCR), including annual plans and the final evaluation. The EA will bear the costs of evaluation and monitoring in all cases. The additional information required for the evaluation process will be drawn from national and international secondary statistical sources of data and, potentially, reports of relevant organizations.

Development Effectiveness Matrix		
Summary	BL-L1037	
I. Corporate and Country Priorities		
1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Themes	**-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity -Climate Change and Environmental Sustainability**	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	**-Micro / small / medium enterprises financed (#) -Women beneficiaries of economic empowerment initiatives (#)**	
2. Country Development Objectives		
Country Strategy Results Matrix		
Country Program Results Matrix		**The intervention is not included in the 2021 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		**See paragraphs 1.21 and 1.22 of the loan document.**
II. Development Outcomes - Evaluability		**Evaluable**
3. Evidence-based Assessment & Solution	**8.7**	
3.1 Program Diagnosis	**2.4**	
3.2 Proposed Interventions or Solutions	**3.6**	
3.3 Results Matrix Quality	**2.7**	
4. Ex ante Economic Analysis	**9.0**	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	**3.0**	
4.2 Identified and Quantified Benefits and Costs	**3.0**	
4.3 Reasonable Assumptions	**1.0**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**0.0**	
5. Monitoring and Evaluation	**6.1**	
5.1 Monitoring Mechanisms	**2.2**	
5.2 Evaluation Plan	**4.0**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Medium**	
Identified risks have been rated for magnitude and likelihood	**Yes**	
Mitigation measures have been identified for major risks	**Yes**	
Mitigation measures have indicators for tracking their implementation	**Yes**	
Environmental & social risk classification	**B.13**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Financial Management: Budget, Treasury, Accounting and Reporting.**
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	**Yes**	**RG-T3690. Support to Economic Productivity and Employment in Latin America and the Caribbean in Response to the Economic Shock Caused by the COVID-19 Pandemic, to support the institutional strengthening of the IDB borrowing countries, economic productivity and employment due to the crisis generated by COVID-19.**

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Assessment Note: The operation BL-L1037, for USD15m is part of the Bank's operational response to the COVID-19 Pandemic Global Credit Program for Safeguarding the Productive Sectors and Employment. The general objective of the program is to support the sustainability of MSMEs as employment providers amid the COVID 19 crisis. The specific objectives are to support the short-term financial sustainability of MSMEs, and to promote the economic recovery of MSMEs through access to productive finance.

The loan proposal presents a solid diagnosis of the problem, as well as a review of international evidence. The proposed solutions are an appropriate response to the problems identified in the proposal and its contributing factors. The results matrix is consistent with the vertical logic of the project, presenting adequate indicators at the level of outcomes and impacts. The outcome indicators are appropriately defined to measure the achievements of the project's specific objectives. The impact indicators (yearly sales revenue at MSMEs and percentage of employment in MSMEs over total employment) reflect the contribution to the general objectives of the operation.

The economic evaluation shows that the operation is efficient, with a an NPV of USD1,873,507. In a context of high uncertainty, the analysis considers the benefits in preventing job losses, ensuring MSME survival and revenues, while the costs are those associated with the implementation of a proposed standard intervention package. The monitoring and evaluation plan proposes a reflective analysis of the outcome and impact indicators included in the result matrix, complemented by a qualitative analysis of execution characteristics. The MEP recognizes the existence of attribution issues in these choices. It should be noted that MSME data in Belize is infrequently measured, and as per the team's recognition, the counterpart has expressed willingness, but not a formal commitment in ensuring that MSME revenue and employment data are available at the end of the project. The monitoring and evaluation activities will be carried out by the DFC (EA) in coordination with the Bank.

RESULTS MATRIX

Project objective:	The general objective of this project is to support the sustainability of Micro, Small and Medium Enterprises (MSMEs) as employment providers in Belize amid the COVID-19 crisis. The specific objectives are: (i) to support the short-term financial sustainability of MSMEs; and (ii) to promote the economic recovery of MSMEs through access to production-oriented finance.

EXPECTED IMPACT

Indicators	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
GENERAL OBJECTIVE: SUPPORT THE SUSTAINABILITY OF MSMES AS EMPLOYMENT PROVIDERS IN BELIZE AMID THE COVID-19 CRISIS					
Indicator 1: Yearly sales revenue at MSMEs.	US$	56,386[1]	56,386	Statistical Institute of Belize (SIB) and information collected by the Development Finance Corporation (DFC).	The program is expected to help maintain the MSMEs yearly's sector's sales. The baseline corresponds to the calculation using 2016 data of the revenue generated by MSMEs in Belize (BES, 2016). In this report, it shows 73% of businesses reporting revenues of less than BZ$40,000 (US$19,801) annually and 12% of businesses generate more than BZ$120,000 (US$59,405) in revenues annually, with the remaining 15% of business generate between BZ$40,000 (US$19,801) and BZ$120,000 (US$59,405). The weighted average results in an average sales revenue for MSMEs is of BZ$113,900 (US$56,386). The exchange rate used is the one registered on June 4th, of 2.02 BZ$ per dollar (Central Bank of Belize). The final target is expected to be accomplished after the termination of the operation. After conversations with the counterpart, there is indeed a will to measure the yearly sales revenue at MSMEs in the near future, but there is no official commitment as to when this will be available.
Indicator 2: Percentage of employment registered in MSMEs over total employment registered in the country.	%	33[2]	33	SIB and information collected by the DFC.	The baseline corresponds to the calculation using 2016 data of the MSMEs classification in Belize (BES, 2016); 33% of the firms are considered as MSMEs in this classification. The final target is expected to be accomplished after the termination of the operation. This value will be verified through the next report available for employment in MSMEs. After conversations with the counterpart, there is indeed a will to measure the percentage of employment registered in MSMEs in the near future, but there is no official commitment as to when this will be available.

[1] Baseline considered with the latest information available (2016).
[2] Baseline considered with the latest information available (2016).

Expected Outcomes

Indicators	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
Specific objective 1: Support the short-term financial sustainability of MSMEs					
Indicator 1: Rate of non-performing Loans (NPL) of the MSME working capital financing portfolio over rate of NPL of the total financial system, 6 months after the beginning of the project.	Unit	2.65	2.65	DCF will provide DFC's NPL. Data from the total financial system will be verified through Belize's Article IV Consultation and Central Bank of Belize.	This indicator is constructed as a fraction in which the numerator is the average NPL in the working capital financing portfolio of DFC, and the denominator is the NPL rate of the total financial system. For 2020, DFC's short-term NPL of the productive portfolio was 20.37%. For the total financial system, as of end 2020, the rate of NPL was of 7.7% as per Belize's Article IV. DFC's short-term NPL at the time of program preparation is 2.65 times higher than the NPL of the total financial system. With the program support, it is anticipated that at least the rate of NPL would maintain its current level. The final target will be verified at the end of the program.
Indicator 2: Survival rate of companies supported with short-term financing instruments up to 24 months after the declaration of a pandemic due to the COVID-19 disease.	%	71.9%	71.9%	Follow-up and monitoring information of the program collected by the DFC.	Based on the available empirical evidence a firm survival rate of 71.9%, corresponding to the rate observed on the Business Establishment Survey for firms before the crisis. The window for this survey was one year, meaning that number of firms registered were compared to those one year after. The survival of the MSMEs supported by the program will be verified by comparing the company's Tax Identification Number at the beginning of the program and at the end to verify which MSMEs continue to make the corresponding tax settlements. The companies that continue to be registered will be considered as surviving companies. On the other hand, those companies which are no longer registered in the Belize Tax Services Department will be considered as companies that have ceased to survive. With the program support, it is anticipated that at least the same survival rate of companies will be maintained. The survival window to be considered for the final target will be of one year.
Specific objective 2: Promote the economic recovery of MSMEs through access to production-oriented finance					
Indicator 3: Rate of NPL of the productive MSME financing portfolio over rate of NPL of the total financial system, 24 months after the beginning of the project.	Unit	1.24	1.24	Follow-up and monitoring information of the program collected by the DFC.	This indicator is constructed as a fraction in which the numerator is the average NPL in the productive financing portfolio of DFC, and the denominator is the NPL rate of the total financial system. For 2020, DFC's NPL of the productive portfolio was 9.52%. For the total financial system, as of end-2020, the rate of NPL was of 7.7% as per Belize's Article IV. DFC's NPL of the productive portfolio at the time of program preparation is 1.24 times higher than the NPL of the total financial system. With the program support, it is anticipated that at least the rate of NPL would

Indicators	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
					maintain its current level. The final target will be verified at the end of the program.
Indicator 4: Proportion of medium-term credit (more than 36 months) in the relevant portfolio.	%	71.29	78.65	Follow-up and monitoring information of the program collected by the DFC.	The relevant portfolio is DFC's current medium-term credit (more than 36 months) in the productive sector. DFC's credit productive portfolio value reached BZ$70.28 million as of 2020, or US$34.79 million as per the exchange rate registered on June 4th, of 2.02 BZ$ is applied, per dollar (Central Bank of Belize), of which BZ$50.10 million (US$24.80 million) is greater than 36 months. Based on DFC's projections, DFC's portfolio for the financing of the MSME's medium-term credit would maintain its current total amount in the next 24 months. With the program support (US$12 million), it is anticipated that medium-term credit would increase its current total amount at the end of the program.
Indicator 5: Percentage of the value of loans allocated to women MSMEs in the productive sectors portfolio.	%	16%	25%	Follow-up and monitoring information of the program collected by the DFC.	WMSMEs is understood to be those companies led or owned by women (with more than 50% of the shareholding in the hands of women or with at least 25% of the shareholding in the hands of women and at least one woman in a position decision). The program will allocate at least 25% of the resources to financing WMSMEs. WMSMEs represented 16% of the total amount of loans in the productive portfolio, with an average loan size of BZ$9,451 (US$4,678 taking into account the exchange rate registered on June 4th, of 2.02 BZ$ is applied, per dollar (Central Bank of Belize)).
Indicator 6: Percentage of the program's relevant portfolio destined to support a more sustainable and resilient economic recovery promoted through financing new investments in climate change adaptation and mitigation.	%	1.75	30	Follow-up and monitoring information of the program collected by the DFC.	DFC's % of the portfolio destined to support a more sustainable and resilient economic recovery promoted through financing new investments in climate change adaptation and mitigation is currently 1.75%. The goal corresponds to the expected percentage of investments considered as climate change mitigation and adaptation finance. The identification of these investments in the portfolio will be based on eligibility criteria established in the RC. The program will allocate at least 30% of total IDB funding for this operation to climate change mitigation and adaptation activities to promote a more sustainable and resilient economic recovery. This contributes to the IDBG's climate finance goal of 30% of approvals by 2021.
Indicator 7: Total mobilization of medium-term private resources achieved as a result of program support.	Millions of US$	12	14.12	Follow-up and monitoring information of the program collected by the DFC	The mobilization as a result of the program support is of 15% of the medium-term resources, with a baseline of US$12 million. In order to achieve the baseline in 2021, the US$12 million were divided by 85%, amounting a final target of US$14.12 million.

Indicators	Unit of measure	Baseline 2020	Final target	Means of verification	Comments
Indicator 8: Total amount of the relevant portfolio of production-oriented finance achieved as a result of program support.	Millions of US$	24.80	36.80	Follow-up and monitoring information of the program collected by the DFC	Baseline condition corresponds to the long-term, size of the portfolio for production-oriented financing for MSMEs. DFC considers long term financing as from 36 months. Less than 36 months it is considered short-term. The total portfolio for productive sector financing is BZ$70.284 million (US$34.79 million) of which BZ$50.101 million (US$24.80 million) corresponds to long term financing. The final target will be the baseline value in addition to the US$12 million dedicated from the program to production-oriented finance. The exchange rate used is the one registered on June 4th, of 2.02 BZ$ per dollar (Central Bank of Belize).

OUTPUTS

Outputs	Unit of measure	Baseline 2020	Year 1	Year 2	Final target	Means of verification	Comments
Single component: Support for MSMEs financing (US$15 million)							
Subcomponent 1.1: Support for improvement of short-term financial capacity (US$3 million)							
Output 1: Amount of MSME working capital financed with program resources.	Millions of US$	0	1	2	3	Follow-up and monitoring information processed by the DFC.	Corresponds to the amount of the operation devoted to MSME working capital financed with program resources.
Milestone 1: Amount of WMSMEs working capital financed with program resources	Millions of US$	0	0.5	0.25	0.75	Follow-up and monitoring information processed by the executing agency.	The figure corresponds to 25% of the total amount. WMSMEs is understood to be those companies led or owned by women (with more than 50% of the shareholding in the hands of women or with at least 25% of the shareholding in the hands of women and at least one woman in a position decision).
Subcomponent 1.2: Support for access to production-oriented finance for economic recovery (US$12 million)							
Output 2: Amount for MSME access to production-oriented financing.	Millions of US$	0	4	8	12	Follow-up and monitoring information processed by the DFC.	Corresponds to the amount of the operation devoted to MSME access to production-oriented financing.
Milestone 1: Amount for MSME access to production-oriented financing allocated to WMSMEs in the productive sectors portfolio.	Millions of US$	0	1	2	3	Follow-up and monitoring information of the program collected by the DFC.	The figure corresponds to 25% of the total amount. The program will allocate at least 25% of the resources to financing WMSMEs.

Outputs	Unit of measure	Baseline 2020	Year 1	Year 2	Final target	Means of verification	Comments
Milestone 2: Amount for MSME access to production-oriented financing destined to support a more sustainable and resilient economic recovery promoted through financing new investments in climate change adaptation and mitigation.	Millions of US$	0	1.5	3	4.5	Follow-up and monitoring information of the program collected by the DFC.	The figure corresponds to 30% of the total amount. The program will allocate at least 30% of total IDB funding for this operation to climate change mitigation and adaptation activities to promote a more sustainable and resilient economic recovery.

Country: Belize **Sector:** IFD/CMF **Project Number:** BL-L1037 **Year:** 2021

FIDUCIARY AGREEMENTS AND REQUIREMENTS (COVID-19)

Executing Agency (EA): Development Finance Corporation (DFC).
Project Name: Global Credit Program for Safeguarding the Productive Sectors and Employment.

I. EXECUTING AGENCY FIDUCIARY CONTEXT

1. Use of Country System in the Project [1]

Budget ☒	Reporting ☐	Information System ☐	Nacional Competitive Bidding (NCB) ☐
Treasury ☒	Internal Audit ☐	Price Comparison ☐	Advanced NCB ☐
Accounting ☒	External Control ☐	Individual Consultancy ☐	Consultancy Firm ☐

Applicable National Laws and regulation:
The DFC was incorporated in September 1963 under the DFC Ordinance No.2 of 1961 as amended by No. 15 of 1963. It was restructured in 1973 and became a state-owned development bank. It reports to the Ministry of Finance and now operates under the New DFC Act No. 1 of 2009 of the Laws of Belize.

2. Executing Agency Fiduciary Capacity

The EA will be the DFC, which will execute fiduciary and technical activities of the program. The Finance and Administration Department of the DFC will be responsible for fiduciary management of the program with support from the Credit Department. At least two of the existing staff of each department will be responsible to execute the day-to-day fiduciary activities of the program. Additionally, fiduciary management of project resources will be done in accordance with the approved CR, which is a special condition prior to first disbursement. The Institutional Capacity Assessment Platform conducted in May 2021 found that the DFC has adequate capacity to execute the fiduciary activities of the program. The evaluation found that the prevailing institutional culture, governance and decision-making processes, written policy and manuals (specifically the Accounting and Credit Policy Manual) and the available process and information systems (specifically, the accounting system, Sage x3) as well as the human resources and skillsets were adequate for the effective management of the program.

3. Fiduciary Risk and Mitigation Actions
Fiduciary Risk: High ☐; Medium ☒ ; Low ☐

Risk	Risk Level	Mitigation Plan
Financial Management: The institutional capacity assessment of the EA shows that the DFC satisfies the necessary conditions to perform fiduciary management activities for the loan operation. The assessment found that the EA has available the necessary administrative, fiduciary and control	Medium	The Bank will conduct coaching sessions with the DFC on financial management policies and procedures of the Bank. Additionally, through a regional TC (ATN/OC-18036-RG) approved to support EAs in the implementation of COVID-19 prototypes, support will be provided to strengthen the

[1] Any system or subsystem that is subsequently approved could be applicable to the operation, in accordance with the terms of the validation conducted by the Bank.

mechanisms to provide and to maintain a transparent and effective administration of the program. Nonetheless, considering that the DFC does not have prior experience implementing programs with the Bank, this could adversely affect the execution of this program through possible delays and errors with disbursement management and financial reporting.		institutional capacity of the DFC to implement the program.

II. Aspects to Be Considered in the Special Conditions of the Contract

Exchange rate: The exchange rate applicable to justify expenses is the exchange rate in force on the date of payment of the expenditure in local currency of the Borrower as indicated in (b)(ii) of Article 4.10 of the General Conditions. Also, this agreed exchange rate will be the exchange rate as published in the Central Bank of Belize (CBB) on the effective date on which the Borrower, the Executing Agency, or any other person or legal entity in whom the power to incur expenditures has been vested makes the related payments to the beneficiary.
Annual Audited Financial Statement: The project financial statements will be prepared in accordance with the External Audited Reports and External Audit Management Handbook. To ensure that the audit of the program is of high quality and conducted in a timely manner, a contract to conduct the program audit should be signed no later than 45 days after the end of the fiscal year, December 31st. The DFC will submit to the Bank annual audited financial statements of the program within 120 days after the close of the fiscal year throughout the loan disbursement period. The final audited financial statements for the program will be delivered within 120 days after the date of the last disbursement.

III. Arrangements and Requirements for the Procurement Execution

Exceptions to Policies and/or Guides

No exceptions anticipated.

Retroactive financing	The Bank may retroactively finance up to US$3 million (20% of the loan amount) in eligible expenditures incurred by the borrower prior to the loan approval date, provided that requirements substantially similar to those established in the Loan Contract were met. Such expenditures must have been incurred on or after May 13, 2021, when the operation was registered. Currently, DFC has a demand for subloans for a total value of US$3 million that may be recognized as retroactive expenses. Furthermore, eligibility requirements for retroactive expenses will have to meet similar criteria to those established in the CR.
Projects with Financial Intermediaries	In the case of a loan for global credit programs and other transactions in which resources are provided to financial intermediaries for the granting of subloans or other form of subfinancing, it shall be indicated that agreements between the DFC and its financial intermediaries, and the final beneficiaries, the Bank's prohibited practice clauses shall be included. Alternatively, if the effective inclusion of these clauses in those contracts is not possible or practical, given the circumstances of the program, the program team may analyze other mechanisms to adopt acceptable controls and properly link them to the sanction procedures the third parties that it is appropriate to link. The design of such mechanisms will be coordinated with the Office of Institutional Integrity (OII), and Legal Department (LEG) support and will be contemplated in the CR.

IV. Agreements and Requirements for Financial Management

Programming and Budget	The DFC Act gives authority to DFC's Board of Directors to make financial allocation to facilitate the achievement of institution's goals and objectives. The annual budget is prepared to advance the DFC's Strategic Development Plan and its supporting Business Plan. The annual budget has three (3) main sections, Operating Budget, Capital Budget and Projected Cash Flows. The process begins with a budget call in September and by January of the following year, the annual budget is approved. The budget is reviewed and updated periodically throughout the year. Therefore, once this IDB-financed program is approved, its resources will be incorporated into the annual budget and therefore no delays are foreseen in the implementation of the program due to DFC's formal budgeting process. The budget is prepared using the accounting software, Sage x3.
Treasury and Disbursement Management	In accordance with the norms of the Government of Belize, a segregated bank account at the CBB will be utilized for the receipt of loan resources disbursed by the Bank. Additionally, a segregated bank account denominated in local currency at a commercial bank will be established by the DFC to receive transfers of the loan resources, in local currency, from the account at the Central Bank. This local currency account will be used to disburse loan resources to MSMEs and eligible Intermediary Financial Institutions (IFI) to fulfil the program objectives, adhering to the provisions of the CR. Disbursements made by the IDB are kept in the separate accounts to ensure and provide independence in the use of the program resources.
Accounting, Information System and Report Generation	Accounting and financial reporting of the program will follow the established practices of the DFC, which prepares financial reporting in accordance with the International Financial Reporting Standards (IFRS). Also, DFC's accounting software, Sage x3 will also be used for accounting and reporting of the program. It is expected that the Sage x3 system will: (i) facilitate the recording and classification of all financial transactions according to source of funding and categories of investment; and (ii) provide information related to, planned versus actual financial execution of the project, commitments made under the project, the financial plan for a six-month period, financial statements as well as performance reports.
External Control	DFC will contract external audit services in accordance with the Terms of Reference (TOR) agreed with the Bank to conduct an audit of the program. These TORs will establish the type and scope of work to be carried out. The selected auditor must be eligible to conduct audit of Bank-financed projects in Belize and could be the same audit firm hired for the audit of DFC considering that the audit firm will have a more comprehensive understanding of the controls and management that is applicable to the program. The program financial statements will be prepared in accordance with the External Audited Reports and External Audit Management Handbook. To ensure that the audit of the program is of high quality and conducted in a timely manner, a contract to conduct the audit of the program should be signed no later than 45 days after the end of the fiscal year, December 31st. The DFC will submit to the Bank annual audited financial statements of the program within 120 days after the close of the fiscal year throughout the loan disbursement period. The final audited financial statements for the program will be delivered within 120 days after the date of the last disbursement.
Financial Supervision of the Project	The financial supervision plan of the program will focus on: (i) activities related to the implementation and follow-up of arrangements and systems being implemented for the fiduciary management of the program; and (ii) follow-up on the implementation status of risk mitigating measures. Disbursements will be reviewed on an ex ante and ex post basis, as deemed necessary.

V. Relevant Information for the Operation

Applicable Policies and Guides to the operation

Financial Management	Procurement
• GN-2811	The provisions of paragraph 3.13 of GN-2349-15 "Procurements in loans to Financial Intermediaries" is applicable to matters of procurements for goods and works financed by resources of this program, which establishes that in this type of loans, for procurements that are carried out by the beneficiaries, the current practices of the private or commercial sector will be applicable. Additionally, considering that it is a program that will operate on demand only to finance sub-loans, there will be no need for the EA to conduct procurement of works, goods, services, or consulting as part of its execution. As such a Procurement Plan is not included. However, the Financial Management Guidelines for IDB financed Projects (OP-273-12) will apply, as well as the Audited Financial Reports and External Audit Management Handbook and the Disbursement Guide. • GN-2349-15 • GN-2350-15

Records and files

The DFC will be responsible for establishing the necessary controls for the safeguarding and integrity of the documentation generated by the execution of the program. The Bank may, at any time, verify the standards of organization, control, and security of the files.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/21

Belize. Loan ____/OC-BL to the Development Finance Corporation (DFC)
Global Credit Program for Safeguarding the Productive Sectors and Employment

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Development Finance Corporation (DFC), as borrower, and with Belize, as guarantor, for the purpose of granting it the former a financing to cooperate in the execution of a Global Credit Program for Safeguarding the Productive Sectors and Employment. Such financing will be for the amount of up to US$15,000,000 from the resources of the Bank's Ordinary Capital and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ ___________ 2021)

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