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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

BELIZE

PROJECT PAPER

BALANCE OF PAYMENTS LOAN

AID/LAC/P-124 PAAD LAC-83 Loan Number: 505-K-001

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CLASSIFICATION: UNCLASSIFIED

AID 1120-1 (8-66) PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. LAC-83 — Loan Number 505-K-001 2. COUNTRY Belize 3. CATEGORY Cash Transfer 4. DATE December 1982

5. TO: AA/LAC, Otto J. Reich	6. OYB CHANGE NO.
7. FROM: LAC/DR, Dwight B. Johnson DB for	8. OYB INCREASE $4,600,000 TO BE TAKEN FROM: Economic Support Fund (ESF)
9. APPROVAL REQUESTED FOR COMMITMENT OF: $4,600,000	10. APPROPRIATION - ALLOTMENT

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
[X] LOAN [ ] GRANT	[ ] INFORMAL [X] FORMAL [ ] NONE	FY 1983	

15. COMMODITIES FINANCED

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only: $4,600,000	U.S.: $4,600,000
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash:	Other:

18. SUMMARY DESCRIPTION

The program proposes to: ~~(a)~~ provide immediate balance-of-payment support to the Belizian economy by providing a $4.6 million cash transfer to the Central Bank of Belize; and (b) require the GOB to deposit into a special account over a two-year period the local currency equivalent of $4.6 million to be used, with U.S. concurrence, for financing (i) the local currency costs of other donor or other projects agreed upon between the GOB and A.I.D., (ii) the equivalent of $450,000 for the support of private voluntary organizations operating in Belize, and (iii) the equivalent of $150,000 for improving public sector accounting and budgetary procedures and assisting the GOB to undertake needed policy studies.

Besides standard conditions precedent to disbursement, involving a legal opinion and Borrower representatives, the GOB will agree to a number of covenants which will be included in the loan agreement, including principally: (1) the establishment of a special account in the Central Bank to which it will deposit the required local currency, (2) increasing its current savings to past levels, and (3)

(Continued on Page 2)

19. CLEARANCES	DATE
LAC/DR:CHLeonard (draft)	12/7/82
LAC/DP:DErbe (draft)	12/7/82
LAC/CAR:JFrancis/RHechtman (Draft)	12/7/82
GC/LAC:RMeighan (draft)	12/7/82
ARA/ECP:CAllen (draft)	12/7/83
PPC/PB:HHandler (draft)	12/7/83
FM:WMcKeel (phone)	12/8/82
LAC/DR:ABisset KB	12/8/82

20. ACTION

[X] APPROVED [ ] DISAPPROVED

AUTHORIZED SIGNATURE: Irving Levy — DATE: 12/8/82

TITLE: Acting Assistant Administrator for LAC

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SUMMARY DESCRIPTION (continued)

importing or causing to be imported within one year, raw materials, intermediate goods, spare parts, agriculture inputs and capital goods from the U.S. for the private sector in an amount at least equivalent to $4.6 million. In addition, a general covenant will be included in the agreement requiring the GOB to use the assistance provided, including local currency allocated by the GOB, in accordance with criteria agreed upon in writing. This will permit side letters to be issued which will require (1) the use of A.I.D. assistance in a manner which will not cause injury, or the threat thereof, to the production, marketing, or pricing of U.S. agricultural commodities or products; and (2) the implementation of certain provisions of the draft authorization markup for the FY 1982 supplemental agreed to by the Administration.

The dollar loan will be repaid in 25 years with a 10-year grace period. The interest will be 2% during the grace period and 3% thereafter.

BELIZE BALANCE OF PAYMENTS LOAN

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BELIZE BALANCE OF PAYMENTS LOAN

I. SUMMARY AND RECOMMENDATIONS

A. Recommendation: It is recommended that the AA/LAC authorize a loan of $4.6 million from Economic Support Funds to provide balance-of-payments assistance to the Government of Belize (GOB). A request for a supplemental appropriation of Economic Support Funds (ESF) to finance this program was approved by the Congress and signed by the President.

B. Summary Justification: The Government of Belize is faced with two sets of economic problems: (1) a balance-of-payments shortfall and low foreign exchange reserves, and (2) a deteriorating fiscal situation and a cash flow deficit on central government payments. The proposed program loan will assist the Government of Belize to cover its foreign exchange shortfall and buttress its foreign exchange reserves. This, in turn, will enhance both the external and internal creditworthiness of the country. The longer term objective of this program is to enable the GOB to improve its domestic financial situation including the provision of funding in its public sector investment program.

It has been determined that non-project assistance is the most appropriate mechanism to use because of the need to respond quickly to the current requirement for foreign exchange. A cash transfer is recommended because of the need to accelerate disbursement in order to impact rapidly on the balance-of-payments problem.

Within two years of disbursement of the proposed loan, the GOB will be asked, as a condition of the loan, to allocate the local currency equivalent of $4.6 million to a special account to be used primarily to provide counterpart to public sector investment projects supported by external donors and such other projects as shall be agreed upon by the GOB and A.I.D. Of this amount, the equivalent of U.S. $600,000 will be set aside (1) to support private voluntary organizations operating in Belize ($450,000) and (2) to assist public sector offices improve their accounting and budgetary procedures and carry out policy studies ($150,000).

C. Summary Conditions and Covenants:

1. Lending Terms and Interest Rate - The Borrower shall pay the loan to A.I.D. in U.S. dollars within twenty-five (25) years from the date of first disbursement under the loan including a grace period of not to exceed ten (10) years. The Borrower shall pay interest at the rate of 2% per annum during the grace period and 3% thereafter. Interest shall be payable semi-annually. The first payment of interest shall be due and payable no later than six months after disbursement of the loan.

2. Repayment - The Borrower shall repay to A.I.D. the principal within twenty-five (25) years from the date of loan disbursement, in approximately equal semi-annual installments of principal and interest. The first installment of principal shall be payable 9 1/2 years after the date on which the first interest payment is due.

3. Conditions Precedent to Initial Disbursement - Prior to the disbursement under this Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

-- An opinion from an appropriate official of the Borrower stating that the Loan Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all its terms.

-- A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Borrower, together with a specimen signature of each person certified as to its authenticity.

4. Covenants - The loan agreement will include the following covenants:

A. Local Currency Special Account(s).

(1) The Borrower agrees to establish a local currency special account, or accounts, at the Central Bank of Belize to be capitalized with the local currency equivalent of AID's dollar disbursement hereunder, using the highest lawful rate of exchange existing on the date of local currency deposit. The account(s) shall be capitalized, from the date of Loan disbursement, on the following schedule:

Within 6 months	The equivalent of U.S. $ .5 million
Within 12 months	The equivalent of U.S. $1.5 million
Within 18 months	The equivalent of U.S. $3.0 million
Within 24 months	The equivalent of U.S. $4.6 million

(2) The Borrower agrees to use the funds in the special account(s) to finance the local currency costs of other donor development projects or other projects. The Borrower further agrees to set aside the equivalent of U.S. $450,000 from the special account(s) for the support of private voluntary organizations operating in Belize, and the equivalent of U.S. $150,000 to improve the accounting and budgetary procedures of public sector offices and to assist the GOB to carry out policy studies. Uses of local currency for all purposes identified herein shall be mutually agreed upon by the Borrower and AID.

(3) The Borrower agrees to submit to AID quarterly status reports which will show actual disbursements from the special account(s).

B. Current Savings. The Borrower agrees to increase the central Government current savings to the historic ratio of current savings to the Gross Domestic Product, and the current savings will be at least B$14.0 million for the Belize Fiscal Year 1983/84.

C. Imports from the U.S.. The Borrower agrees that within twelve months of the date of the disbursement of funds under this Agreement, the Borrower shall import or cause to be imported into Belize raw materials, intermediate goods, spare parts, agriculture inputs and capital goods from the United States for the private sector in an amount at least equivalent to the Loan disbursement. Documentation evidencing imports attributed to the funds provided under this Agreement shall be retained by the Central Bank of Belize as part of its files related to this Agreement and shall be made available for review or audit. Within fifteen months of the date of disbursement by AID of U.S. Dollar funds under this Agreement, the Borrower agrees to submit to AID a list of the goods imported in compliance with this covenant.

D. Use of U.S. Assistance. The Borrower will place particular emphasis on using assistance, including local currencies hereunder, in accordance with such criteria as may be agreed upon in writing between the Parties. (This provision provides for side letters which can be used to outline the agreements reached between the GOB and A.I.D. concerning avoidance of injury to U.S. agriculture and the uses of counterpart for purposes consistent with Sections 103-106 and 123(a) of the FAA.)

5. Waivers - No waivers are required.

II. Background

A. Setting: Belize, a small Central American country about the size of Massachusetts, gained its independence from Britain in September 1981. With a population of only 145,353 in 1980, it is the most sparcely populated country in Central America (six people per square kilometer, or 15 people per square kilometer of arable land). Formerly British Honduras, this country is English-speaking and maintains strong relationships with other Caribbean Basin countries through the Caribbean Community (CARICOM), the Caribbean Development Bank (CDB), and regional technical organizations. It also maintains strong social and economic bonds with its close neighbor, Mexico. Approximately 40% of the population speak Spanish as their first language.

Belizians are an ethnically mixed people, about one-half of whom are of African descent, with another 40% composed of local Indian groups, or a mixture of these Indian groups with Europeans. The remaining 10% consists of Europeans, Chinese, East Indians, and Lebanese.

The capital of Belize is the new city of Belmopan, 50 miles inland from Belize City, the old capital, and the largest city (40,000). Slightly more than one-half of the population live in six urban areas. The natural population growth is about 3%, although the continuing migration of workers, especially to the United States, reduces this rate to an actual increase of about 1.3%.

B. Recent Economic Growth: During the 1970s, the economy of Belize was characterized by a strong growth performance, averaging 5% a year. However, the economy turned sharply downward in 1981, in part due to poor agricultural performance, stagnation in the manufacturing sector, and the international economic slump.

The main factor affecting agriculture, which contributes about 20% to GDP and accounts for about 70% of domestic exports, was the damage done by smut disease to the sugar cane crop. Sugar is by far the most important export, amounting to about 50% of exports. The recent production reductions affected adversely the balance-of-payments for 1981, as the current account deficit widened to US$39 million (12% of GDP). Despite considerable land resources (less than 15% currently being farmed) and a climate favorable for agriculture, Belize continues to import food (approximately 22-24% of total imports). The cost of food imports runs at the level of some $30 million a year. Efforts are currently underway to expand agricultural production for both export and domestic consumption. Major constraints to long-term development in agriculture include shortage of labor and managers, inadequate delivery system for extension services, lack of both short-term working capital and long-term credit for farmers, inadequate economic infrastructure, and a negative policy environment, particularly in the area of price controls.

The second most important sector, manufacturing, accounts for about 15% of GDP and is based primarily on agricultural output. Manufacturing growth has been affected by saturation of the relatively small domestic market, uncertainties associated with independence, and government price controls on some domestically produced goods.

Tourism exhibits considerable potential and accounts for about 10% of foreign exchange earnings. Nevertheless, an effective tourist plan, including marketing approaches and infrastructure requirements, still needs to be developed.

The nation's economic infrastructure is still in an early stage of development. Substantial investment in a road network and a new port have been made by the Government. Road maintenance, however, remains a serious problem. A new port has facilitated the rapid rise in transit cargo for Mexico, which accounts for about 40% of all cargo handled and a growing source of foreign exchange.

The private sector in Belize is an active one. The investment climate is good and, although there is some room for developing efficient import substitution activities, the government strategy is to promote private investment in the export sector given the small size of the domestic market.

In a climate of continuing political stability, future economic growth largely depends on three factors: (1) development of adequate policies and removal of certain discriminatory price controls to encourage local and foreign private sector-financed infrastructure projects; (2) implementation of various public sector-financed infrastructure projects, and (3) increased availability of both skilled and unskilled labor to meet the need for managerial talent and to carry out agriculture programs. However, given the contraints found in the Belize economy, especially shortages of capital and skilled manpower, it is unlikely that over the short-term the country will be able to return to the strong growth performance of the early and mid 1970s.

C. Balance of Payments: In 1980, Belize had a balance-of-payments surplus of US $2.3 million and in 1981 a deficit of US $0.9 million. For 1982 the decline in the net international reserve position is expected to approximate US $4 million. Gross foreign exchange assets of the Central Bank declined from US $10.35 million at the end of the 1981 to US $6.6 million as of October 13, 1982. In terms of import coverage this decline in gross foreign exchange assets constituted a reduction from 3.1 weeks to 2.3 weeks of import coverage. Restoration of gross reserves to a position of 6.0 weeks of import coverage (based upon 1982 imports) would require a $10.6 million increase in the gross asset position. Coverage at this level is deemed a minimum of adequate coverage by major external donors. It is also anticipated that the 1983 B/P deficit will be about US $ 4 million.

Other external donors have indicated that the provision of immediate B/P relief on the order of US $4 to 5 million would be welcome as relief to Belize's current B/P problem, particularly if it were conditioned as a requirement for fiscal correction. The GOB has applied to the IMF for a drawing under the Compensatory Finance Facility (CFF) and this drawing would provide approximately $4 million in freely disposable foreign exchange. However, this drawing is not likely to be forthcoming until late in the first quarter of CY 1983 at the earliest.

Table 1 below on the Balance of Payments of Belize, which was recently prepared, suggests the fundamental reasons for the swing toward a deficit balance of payments position. As can be seen, the domestic exports of Belize declined by about 22 percent in 1982 and domestic imports declined about 10 percent. The increased trade deficit was offset by a decline in non-factor service expenditures and a small increase in transfers resulting in no change in the magnitude of deficit on current account--$38.6 million for both 1981 and 1982. The reduced inflow of private capital and commercial loans on capital account was also nearly offset by an increase on the net inflow on official capital. The paramount danger for Belize relates to the fact that further erosion of the gross reserve position could impair external creditworthiness and undermine the capital account—particularly in regard to credits to the private sector. For this reason, each dollar of ESF assistance can be viewed as yielding a multiple equivalent in terms of capital account inflow.

TABLE 1

Belize: Balance of Payments

(Million of U.S. Dollars)

	1980	1981	1982
Domestic exports of goods	82.1	74.7	57.8
Reexports of goods	28.7	44.3	32.7
Total Exports of goods	110.8	119.0	90.4
Non-factor service earnings	10.3	10.5	10.6
Exports of goods & n.f.s.	121.1	129.5	101.0
Domestic imports of goods, f.o.b.	121.0	117.7	106.0
Imports of goods for re-export	28.8	44.3	32.7
Total Imports of goods	149.8	162.0	138.7
Non-factor service expenditures	15.1	14.0	10.4
Imports of goods & n.f.s.	164.8	176.0	149.1
Net Factor Income	3.6	4.0	3.8
Transfers	14.9	11.8	13.2
Balance on Current Account	32.4	38.6	38.6
Official Capital	14.1	15.8	18.3
Grants	(5.6)	(8.0)	(-)
Loan Disbursements	(7.7)	(7.9)	(19.0)
Loan Amortization	(-0.6)	(-0.7)	(-1.9)
Public Financial Entities	(1.4)	(0.6)	(1.2)
Commercial Loans	2.3	2.1	1.1
Private Capital and E & O	22.9	18.6	15.4
Balance on Capital Account	34.7	36.5	34.6
Change in Net International			
Reserve Position (- = increase)	-2.3	2.1	3.8

D. Fiscal Situation:

Summary Problem. The cash flow problem (i.e., unpaid claims) faced by the GOB central government amounted to approximately US $1.75 million at the end of September -- the half way point in the GOB fiscal year. Over the longer-term, the failure of the GOB to increase current revenues and reduce current expenditures will deprive the public sector of the resources needed for public sector investment. Revenues in the current Belize fiscal year (FY 1982/83) are about 9 percent under the initial projection and much of this decline is due to the impact of unfavorable exogenous circumstances (particularly the devaluation of the Mexican peso) and the decline in trade-related tax and customs revenues on exports to Mexico. Even though this loss may be temporary, corrective action is appropriate to ensure that the GOB has the ability to finance its public investment budget.

Detailed Discussion. The current status of the GOB's fiscal situation, prepared by the GOB and the IMF in April 1982, is provided in Table 2 below. The analytical logic of this table is as follows: (1) The difference between current revenues and current expenditures is the current surplus. (2) The current surplus plus capital revenues (a relatively minor item) constitute all of the local non-bank funds available to finance central government capital expenditures and transfers to the rest of the public sector. (3) The other sources of funding for capital expenditures are foreign grants and loans and domestic and foreign bank credits. In point of fact, the central government's current surplus accounts for nearly all of the savings of the public sector; see IBRD, Economic Memorandum on Belize (April 5, 1982), page 2. Public enterprises as a whole have had small operating deficits. Domestic funding from the current surplus as well as credit from the domestic banking system accounted for about 60 percent of funding of central government capital expenditures during the two recent fiscal years.

Central Government Operations
(In Millions of Belize Dollars)

Fiscal Year	1980/81	1981/82	1982/83(b)
Current Revenue	80.7	84.9	88.1
Current Expenditures	62.5	72.0	81.4
Wages & Salaries	27.9	34.0	
Other	34.6	38.0	
Adjustment (Extrabudgetary)	- 0.1	- 0.1	
Current Surplus	18.1	12.8	6.7
Capital Revenue	1.4	1.3	
Available Local Funds	19.5	14.1	
Capital Expenditure (a)	40.3	40.5	
Local Funds	24.8	24.8	
Foreign Funds	15.5	21.4	
(Grants)	(14.0)	(15.8)	
(Loans)	(1.5)	(5.6)	
Deficit for Domestic Financing	5.3	9.5	
Central Bank	2.3	13.6	
Commercial Banks	7.6	3.6	
Other	0.5	0.5	

(a) Includes transfers to rest of public sector.

(b) Based upon GOB budgetary revision of October 1982.

The GOB budget law for the 1982/83 fiscal year projected current revenues at B $96.5 million, current expenditures at B $81.4 million and a current surplus of B $15.1 million. By the end of August it was evident that the revenue performance was not conforming to the budgetary projection, and therefore significant downward revisions were made by the GOB. These revisions set current revenues for the fiscal year at B $88.1 million -- a reduction of B $8.4 million -- while no changes were made in the expenditure level. The current surplus for the 1982/83 was therefore reduced to B $6.7 million. Based upon revenue performance during the first half of the 1982/83 fiscal year, the magnitude of downward revision appears realistic.

Some of the problems responsible for the cash flow or liquidity crisis of recent months go beyond the downturn in the world economy and even the strong devaluation of the Mexico peso--which affects GOB revenues by reducing the re-export customs duties. These problems include high growth of current expenditures, late reimbursement for expenditure under overseas cooperation programs, and failure of certain public enterprises to meet recurrent liabilities. These problems suggest the need for improvement of the central government's financial planning and management, as was suggested by the recent IBRD Economic Memorandum on Belize (see pages 35-36). The erosion of the current surplus (falling from B $18.1 million in FY 1980/81 to B $6.7 million in FY 1982/83) gives rise to three longer-term alternative prospects: (1) a continued reduction of capital expenditures and lower future economic growth; (2) increased utilization of domestic banking credits with the side-effect of reduced availability of credit to the private sector, or (3) an effort to maintain the historic ratio of current expenditures. The most effective means of accomplishing restoration of a healthy level of current surplus is by small but timely adjustments.

E. Development Strategy and Resources: The basic development strategy of the GOB is to provide the economic and social infrastructure required to stimulate economic development, leaving to the private sector most direct investment in productive projects. The GOB's public sector investment program is outlined in the "Economic Plan for Belize, 1980-83", a program designed with the assistance of the IBRD, IMF and UNDP. This plan reflects a total budget for new projects of US $167.0 million for the 1982-85 period. The proposed public investment program for this period includes about US $80.0 million, for directly productive projects. This high budget level for the productive sector is necessary in part because of the absence of sufficient private sector investment in agriculture, manufacturing, and tourism. This investment budget also includes funds for various transportation, power, and energy projects, as well as several social infrastructure programs in education, health, housing, and water and sewerage.

In the past, most bilateral aid has come from the United Kingdom which is still heavily involved in assisting Belize with its development. Most multilateral assistance has been channelled through UN agencies and through the Caribbean Development Bank (CDB). Of the 50 or so ongoing development projects, currently about one-half are financed through United Kingdom development agencies. Another eight receive funding through the CDB. Other sources of funding are the UNDP and CIDA. The European Economic

Community (EEC) is also an active development participant in Belize and has recently established a resident office in Belize City. U.S. Government assistance has been through A.I.D.'s regional program in the Caribbean, under which Belize has been the largest beneficiary.

The Belize Government's priorities for future funding over the 1982-85 time frame include some 44 projects. Tentative funding sources have been identified for only about one-half of these programs. At the present time, neither the World Bank nor IDB has any programs in Belize, but the World Bank is currently discussing a road maintenance project with the GOB.

III. PROPOSED U.S. ASSISTANCE AND PROGRAM

A. Objective: A.I.D.'s development strategy for Belize emphasizes short-term economic stabilization support and longer-term economic development assistance to allow the country to achieve a measure of sustainable growth. In support of this strategy, A.I.D. proposes to provide the GOB with a quick-disbursing cash transfer loan. The essential and immediate purpose of the proposed $4.6 million ESF program is to cover the country's foreign exchange shortfall and buttress the country's foreign exchange reserves, thereby assuring over the short run, the external and internal creditworthiness of the country. Over the longer term, the proposed program would leverage action by the GOB to improve its financial situation (i.e., its cash flow problems) and assure adequate funding of the GOB's public sector investment program.

B. Proposed FY 1983 A.I.D. Assistance: A $10 million ESF and $1.65 million DA program in FY 1983 for Belize is contemplated. Besides the proposed $4.6 million cash transfer (provided under the FY 1982 Caribbean Basin Initiative Supplemental), the following projects make up the program:

(1) Private Sector Rediscount Fund. The $5.0 million rediscount fund will provide essential credits to private sector entrepreneurs for investment in business activities, with emphasis on export products.

(2) Technical Assistance for the Housing Guaranty. The $0.4 million grant will supply the appropriate technical assistance required for the Housing Guaranty (HG) project. This three-year FY 1982 $2.0 million HG project aims at strengthening the institutional capacity of the Belize credit union system in the area of shelter construction, the rationalization of the Government's housing delivery system, and the preservation and upgrading of the country's housing stock.

(3) Livestock Production Program. This $1.2 million loan/grant program is being designed as an integrated approach to the improvement of the livestock sector. This systematic approach will include productivity improvement, credit availability, market development, and policy changes.

(4) Private Voluntary Organization Program. Some $0.3 million in grants will be available for Private Voluntary Organization (PVO) projects in agriculture, small business and small, self-help community-based development activities.

(5) Technical Assistance for Program Development. Some $0.15 million in grants will also be available for project development needs.

The size and composition of this assistance program has been developed to demonstrate the U.S. Government's interest in maintaining a democratic, independent, economically viable Belize, supportative of U.S. policies and capable of maintaining its territorial integrity.

C. Local Currency Programs: As a condition to the BOP loan, the GOB will be asked to agree to establish a special account within the Central Bank into which the GOB will allocate local currency in an amount equivalent to at least $4.6 million.. These local currency funds would primarily be used for the purpose of providing local counterpart financing for public sector investment projects approved and supported by external donors (e.g., CIDA, BDD (UK), the CDB, the CDC, EDF, AID, the IBRD) or for other projects, as may be agreed upon between AID and the GOB. The GOB and other donors have identified a number of projects which they believe warrant financing. The following projects together with the GOB local currency counterpart requirement (in millions of Belize dollars) and the external donor interested in providing assistance have been identified:

Belmopan Hotel	1.5	CDB
Electricity Expansion	1.0	CDB/Suppliers
Banana Industry Expansion	1.0	CDC
Abattoir Expansion	0.5	CDB
Belize City Water and Sewer Project	6.0	CIDA
Belize Beef Corporation	2.0	CDB

In addition to these projects, it is understood that the IBRD is considering a road maintenance loan of approximately US $5 million for next year. These illustrative projects as well as other projects not as yet designed and/or firmly agreed upon between the donors and GOB will form the pool from which projects will be selected for support from the special account.

Further, the GOB will be required to set aside the equivalent of U.S. $600,000 in local currency in the special account for use in support of three priority activities. Of this amount, the equivalent of U.S. $450,000 will be used to support the activities of private voluntary organizations (PVO) operating in Belize. These funds could be used in conjunction with the A.I.D. grant financed PVO Program discussed above or in support of PVO activities which fall outside the A.I.D. supported PVO program. The remaining funds, equivalent to U.S. $150,000, would be used to support two activities. First, we understand that the GOB intends to improve the planning unit in the Ministry of Finance in line with recommendations of the April 1982 IBRD Economic Memorandum on Belize, including a name change to the Office of Budget and Management. The IMF is giving the GOB technical assistance in accounting and budgeting procedures but additional funds of at least US $100,000 are needed to improve the work of GOB offices related to this problem. Data problems encountered during the PAAD preparation period (especially in analyzing central government finances) also suggest that such improvement is necessary. Second, during the PAAD development stage, it was noted that price controls on agricultural export products had been relaxed by the GOB; however, some price and quantity controls continue for inferior cuts of beef and for local marketing of timber, rice, and fish. Thus, further modification in pricing policies would appear to be necessary. To assist the GOB to undertake studies of this sort, it is proposed that the equivalent of approximately U.S. $50,000 be provided to finance detailed studies of important policy or policy-related areas.

D. Conditionality: A principal condition attached to the BOP loan will require the GOB to improve its current fiscal situation. The presently available data on GOB central government current revenues and expenditures suggest that the present cash-flow crisis results mainly from exogenous circumstances --particularly lower income taxes due to the reduced profits of sugar producers and to lower revenues from import duties due to the Mexican devaluation. Central government currenty savings (i.e., current revenues less current expenditures) has decreased in the current Belize fiscal year. The revised GOB FY 1982/83 budget estimates a current savings of B $6.7 million, as compared with an estimate of $12.8 million in the previous FY 1981/82 budget, and savings of $18.1 million during FY 1980/81. In preparing its budget for the 1983/84 fiscal year, the GOB should aim for a higher budgetary current savings. The GOB has obtained legislative approval (as of November 1, 1982) for a change in valuation of land for tax purposes, a 1% increase in stamp duties, and an increase in airport landing fees. The GOB estimates that increases in these three taxes will produce additional revenues of B $1.5 million during the remainder of the present fiscal year. Based upon our consultations here and with the GOB, the principal task for GOB fiscal management is to increase central government current savings. Maintenance of the recent historic ratio of central government current savings to Gross Domestic Product suggests that B $14 million should be a minimum goal for the GOB in regard to its budget for the upcoming Belize FY 1983/84. This is approximately equivalent to a 5 percent increase in current revenues and a 5 percent decrease in current expenditures.

E. Implementation Arrangements: It is anticipated that A.I.D. will disburse the loan to the Belize Central Bank which will facilitate foreign exchange payments as requested by the GOB. As a condition to our assistance, the GOB would be required to agree that during the year following initial disbursement Belize would import from the United States at least the amount of the loan in raw materials, intermediate goods, spare parts, agriculture inputs and capital goods for the private sector, excluding defense items, luxury goods, food and pesticides. The GOB would submit the relevant documentation to A.I.D. in this regard.

With regard to the local currency special account(s) within the Central Bank, the GOB will be required, at a minimum, to fund the account on the following schedule from the date of disbursement of the cash transfer:

within 6 months	The equivalent of U.S. $ .5 million
within 12 months	The equivalent of U.S. $1.5 million
within 18 months	The equivalent of U.S. $3.0 million
within 24 months	The equivalent of U.S. $4.6 million

To ensure the integrity of the account(s) (e.g. against the effects of changes in the exchange rate), the GOB will be required to deposit local currency into the account(s) at the highest lawful rate of exchange existing on the date of local currency deposit.

The GOB will be asked to agree, as a condition to the loan, to submit quarterly status reports which will be adequate to show actual disbursements from the special account.