PD-AAQ-810

**UNCLASSIFIED**

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

BELIZE

# PROJECT PAPER

ECONOMIC SUPPORT PROJECT
COUNTER PART FUND II

AID/LAC/P-211

Project Number: 505-0012
Loan Number: 505-K-004A
Loan Number: 505-K-004B

**UNCLASSIFIED**

CLASSIFICATION:

AID 1120-1 (8-58)

**DEPARTMENT OF STATE**
**AGENCY FOR INTERNATIONAL DEVELOPMENT**

**PAAD**

**PROGRAM ASSISTANCE APPROVAL DOCUMENT**

| | |
|---|---|
| 1. PAAD NO. 505-0012 | 505-K-004A 10.0 mil<br>505-K-004B 3.0 mil |
| 2. COUNTRY | Belize |
| 3. CATEGORY | Cash Transfer |
| 4. DATE | February , 1985 |
| 5. TO: AA/LAC, Victor M. Rivera | 6. OYB CHANGE NO. |
| FROM: LAC/DR, Dwight B. Johnson | 7. OYB INCREASE<br>TO BE TAKEN FROM: Economic Support Funds (ESF) |
| 9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 13,000,000 (loan) | 10. APPROPRIATION - ALLOTMENT LES4 85-35505-KL-31 (10.0)<br>LESA 85-35505-KL-31 (3.0) |

| 11. TYPE FUNDING | 12. LOCAL CURRENCY ARRANGEMENT | 13. ESTIMATED DELIVERY PERIOD | 14. TRANSACTION ELIGIBILITY DATE |
|---|---|---|---|
| XX LOAN ☐ GRANT | ☐ INFORMAL ☐ FORMAL ☐ NONE | | |

15.

Loan Terms: The loan will be repaid in 25 years, including a 10 year grace period. The interest rate will be 2% during the grace period, and 3% thereafter.

| 16. PERMITTED SOURCE | 17. ESTIMATED SOURCE |
|---|---|
| U.S. only: | U.S.: $13,000,000 |
| Limited F.W.: | Industrialized Countries: |
| Free World: | Local: |
| Cash: $13,000,000 | Other: |

18. SUMMARY DESCRIPTION

The program proposes to provide immediate balance of payments support to the economy of Belize via a loan cash transfer of $US13 million over six quarterly disbursements. The local currency equivalent to the cash transfers will be deposited in a special account at the Central Bank of Belize. Disbursements from the local currency account will be at the authorization of the USAID Representative in Belize for allocation to a Mission Trust Fund and for expenditures under the GOB Capital II budget.

The GOB will agree to a number of covenants and conditions precedent to each disbursement, as per pp. 1-5, including principally: (a) the maintenance of programmed levels of development expenditure and public sector savings, (b) the removal of quantitative trade restrictions imposed in 1982 for developmental reasons, (c) restructuring the debt and improving management of the Belize Electricity Board (BEB), (d) restructuring the Belize Marketing Board (BMB) and (e) importing or causing to be imported within 12 months from each disbursement an equivalent amount of raw materials, intermediate goods, spare parts, agricultural inputs and capital goods from the U.S. A companion program of grant-funded technical assistance will be utilized to assist the GOB in meeting these conditions.

| 19. CLEARANCES | DATE |
|---|---|
| LAC/DR:WStickel | 2/2 |
| LAC/DR:DBJohnson | 2/25 |
| LAC/DP:JClary | 21 Feb 85 |
| GC/LAC:PJohnson | 21 Feb 85 |
| LAC/CAR:MDagata | 2 2 85 |
| PRA/ECP:RBeckham | 2/22/85 |
| M/FM:CChristensen | 2/25/85 |

20. ACTION

☐ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE: [signature] DATE: 2-25-85

TITLE: Assistant Administrator, LAC

CLASSIFICATION:

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

# PROJECT AUTHORIZATION

Name of Country: Belize

Name of Project: Economic Support

Number of Project: 505-0012

1. uant to Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Economic Support project for Belize, involving planned obligations of not to exceed One Million United States Dollars (US$1,000,000) in grant funds ("Grant") over a one (1) year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is eighteen months from the date of initial obligation.

2. The project ("Project") will consist of managerial and financial advisory services to the Belize Electricity Board, a two-part study addressing domestic price controls and trade policies and practices, and a comprehensive review of the operations and policies of the Belize Marketing Board.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Grant shall have their source and origin in Belize or in the United States, except as

A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have Belize or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall be financed only on flag vessels of the United States, except as A.I.D. may otherwise agree in writing.

Irwin Levy

Victor M. Rivera
Assistant Administrator
Bureau for Latin America and
the Caribbean

Feb 25 1985
Date

Clearances:
GC/LAC:RBMeighan RM date 21 Feb 85
LAC/DR:ILevy date
LAC/DR:DJohnson date 2/25/85
LAC/CAR:MDagata date 2/25/85

GC/LAC:PGJohnson/gw 0078B/2/14/85

AGENCY FOR INTERNATIONAL DEVELOPMENT

# PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)
Amendment Number
DOCUMENT CODE: 3

2. COUNTRY/ENTITY: BELIZE

3. PROJECT NUMBER: 505-0012

4. BUREAU/OFFICE: Latin America and the Caribbean (LAC) 05

5. PROJECT TITLE (maximum 40 characters): Economic Support

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

| MM | DD | YY |
|---|---|---|
| 08 | 30 | 86 |

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 85 B. Quarter 2 C. Final FY 85

8. COSTS ($000 OR EQUIVALENT $1 = )

| A. FUNDING SOURCE | FIRST FY 85 B. FX | C. L/C | D. Total | LIFE OF PROJECT E. FX | F. L/C | G. Total |
|---|---|---|---|---|---|---|
| AID Appropriated Total | | | | | | |
| (Grant) | ( 1,000 ) | ( ) | ( 1,000 ) | ( 1,000 ) | ( ) | ( 1,000 ) |
| (Loan) | ( ) | ( ) | ( ) | ( ) | ( ) | ( ) |
| Other U.S. 1. | | | | | | |
| Other U.S. 2. | | | | | | |
| Host Country | | | | | | |
| Other Donor(s) | | 50 | 50 | | 100 | 100 |
| TOTALS | 1,000 | 50 | 1,050 | 1,000 | 100 | 1,100 |

9. SCHEDULE OF AID FUNDING ($000)

| A. APPRO-PRIATION | B. PRIMARY PURPOSE CODE | C. PRIMARY TECH. CODE 1. Grant | C. 2. Loan | D. OBLIGATIONS TO DATE 1. Grant | D. 2. Loan | E. AMOUNT APPROVED THIS ACTION 1. Grant | E. 2. Loan | F. LIFE OF PROJECT 1. Grant | F. 2. Loan |
|---|---|---|---|---|---|---|---|---|---|
| (1) ESF | 910 | 930 | | | | 1,000 | | 1,000 | |
| (2) | | | | | | | | | |
| (3) | | | | | | | | | |
| (4) | | | | | | | | | |
| TOTALS | | | | | | 1,000 | | 1,000 | |

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE: 730

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To assist the Government of Belize in determining the nature and form of policy changes needed to obtain a more efficient utilization of the country's resources, to stimulate international trade, and to reduce the overall deficit of the nonfinancial public sector.

14. SCHEDULED EVALUATIONS

Interim MM YY 09 85 | MM YY | Final MM YY

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[X] 000 [X] 941 [X] Local [ ] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

17. APPROVED BY

Signature: Neboysha R. Brashich

Title: Neboysha R. Brashich
Director

Date Signed: MM DD YY 01 28 85

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

BELIZE
ECONOMIC SUPPORT PROGRAM

## TABLE OF CONTENTS

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# I. SUMMARY AND RECOMMENDATIONS

## A. Recommendations

USAID Belize recommends the authorization of $14 million of Economic Support Funds to be divided into a $13 million loan and a $1 million grant. The dollar loan will be repaid in 25 years, including a 10 year grace period. The interest rate will be 2% during the grace period, and 3% thereafter.

The borrower and grantee will be the Government of Belize (GOB) acting through the Minister of Finance. The Central Bank of Belize (CBB) will administer the program.

## B. Program Summary

The program proposes to provide immediate balance of payments support to the economy of Belize via a loan cash transfer of $US13 million over 6 quarterly disbursements and a $US1.0 million grant for technical assistance. The local currency equivalent of the cash transfers will be deposited in a special account at the Central Bank of Belize. Disbursements from the local currency account will be at the authorization of the USAID Representative in Belize for allocation to a Mission Trust Fund and for expenditures under the GOB Capital II budget. Grant-funded technical assistance will be utilized for: (a) advisory services for the Belize Electricity Board (BEB), (b) a study for the reorganization of the Belize Marketing Board (BMB), and (c) an appraisal of the foreign trade regime and domestic pricing policy.

In addition to standard conditions precedent to disbursement, involving a legal opinion and Borrower representation, the GOB will agree to a number of covenants and conditions precedent to each disbursement including: (a) the maintenance of programmed levels of development expenditure and public sector savings, (b) the removal of quantitative trade restrictions imposed in 1982 for developmental reasons, (c) restructuring the debt and improving management of the BEB, (d) restructuring of the BMB and (e) importing or causing to be imported within 12 months from each disbursement an equivalent amount of raw materials, intermediate goods, spare parts, agricultural inputs and capital goods from the U.S. for the private sector.

## C. Covenants and Conditions

### 1. Covenants

The Government (GOB) covenants that it:

a. recognizes the long-term importance of the capital budget for infrastructure development and agrees to maintain the programmed pace of planned development expenditures as stated in the current stabilization program;

b. recognizes the benefits to be derived from free trade and market determined domestic prices, and agrees to conduct a review and analysis of the foreign trade regime and domestic pricing policies and practices;

c. recognizes the importance of savings for economic stabilization and agrees to take the necessary measures to achieve the targets for public sector savings as stated in the current stabilization program;

d. recognizes the need for financial reform of the BEB and agrees to take measures to restructure the commercial and intragovernmental debt of that organization, to keep its current electric bills at no more than 60 days outstanding, and to contract a financial and a management advisor for the BEB for no less than two years each; and

e. recognizes the need for a reform of the agricultural support price policy and agrees to change the function of the Belize Marketing Board to that of an institution concerned exclusively with commodity price stabilization.

2. Conditions Precedent to Disbursements

a. Conditions Precedent to First Disbursement, March 31, 1985

Prior to the first disbursement under the 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 A.I.D. in form and substance sastisfactory to A.I.D.:

(1) a legal opinion of the Attorney General of Belize or other legal counsel acceptable to A.I.D. to the effect that the Project Agreement has been duly authorized and/or ratified by Borrower and executed on its behalf and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all its terms;

(2) a certified statement of the name(s) of the person(s) authorized under the Project Agreement to act as the representative(s) of Borrower under the Project Agreement with the authenticated specimen signatures(s) of said representatives;

(3) a document which includes the scopes of work for a management and a financial advisor for the BEB, and a stated agreement that the two advisors will begin work no later than June 1, 1985, (for a minimum two year period) for the

initial purpose, inter alia, of helping the GOB design a plan for restructuring the BEB debt, including agreeing to a timetable for the assumption of full debt responsibility by the BEB and for conversion of BEB's net debt position with GOB (or a portion thereof) into GOB equity into BEB.

b. Conditions Precedent to Second Disbursement, June 30, 1985

Prior to any of the disbursements or the issuance of any commitment documents under the Project Agreement, the Government of Belize (GOB) shall, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(1) Evidence that expenditures in the Capital II budget are occurring at the programmed rate, and that public sector savings targets are being met.

(2) A document which includes the scope(s) of work for trade and price policy specialist(s), and also includes a stated agreement that the GOB will have established a working group with whom the specialists will begin to work no later than July 1, 1985.

(3) A document which includes the scope(s) of work for agricultural specialists in the field of commodity stabilization, and includes a stated agreement that the GOB will have established a working group with whom the specialists will begin to work no later than July 1, 1985.

c. Conditions Precedent to Third Disbursement, Sept. 30, 1985

Prior to any of the disbursements or the issuance of any commitment documents under the Project Agreement, the Government of Belize (GOB) shall, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(1) Evidence that expenditures in the Capital II budget are occurring at the programmed rate, and that public sector savings targets are being met.

(2) A plan, agreeable to both parties, to restructure the BEB debt, and demonstrate that the BEB external payment arrears have been eliminated.

d. Conditions Precedent to Fourth Disbursement, Dec. 31, 1985

Prior to any of the disbursements or the issuance of any commitment documents under the Project Agreement, the

Government of Belize (GOB) shall, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(1) Evidence that expenditures in the Capital II budget are occurring at the programmed rate.

(2) A review and analysis of the foreign trade regime( including tariff exonerations), and domestic price policy and practices, and a plan for eliminating the quantitative trade restrictions imposed in 1982 for developmental reasons.

(3) Evidence that the BEB debt has been restructured, and that the GOB is making payments to the BEB on a regular basis for current electricity usage, and that the BEB commercial debt is being serviced on time.

(4) Evidence, via an evaluation of the performance of the non-financial public sector by a USAID-funded outside consultant, using the most recent data and appropriate economic indicators, that the GOB is achieving the programmed savings target.

(5) An analysis of the Belize Marketing Board (BMB), containing the strategy and plans for changing the BMB's function into that of an institution concerned exclusively with commodity price stabilization.

e. Conditions Precedent to Fifth Disbursement, March 31, 1986

Prior to any of the disbursements or the issuance of any commitment documents under the Project Agreement, the Government of Belize (GOB) shall, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(1) Evidence that expenditures in the Capital II budget are occurring at the programmed rate;

(2) Evidence that all the trade restrictions initiated in 1982 for developmental reasons have been eliminated;

(3) Evidence that it continues to make payments to the BEB on a regular basis for current electricity usage, that the BEB commercial debt is being serviced on time, and that appropriate management reforms are taking place;

(4) Evidence that satisfactory progress is being made in addressing any defficiencies revealed in the mid-term review of non-financial public sector savings.

f. <u>Conditions Precedent to Sixth Disbursement, June 30, 1986</u>

Prior to any of the disbursements or the issuance of any commitment documents under the Project Agreement, the Government of Belize (GOB) shall, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(1) Evidence that expenditures in the Capital II budget are occurring at the programmed rate;

(2) Evidence that it continues to make payments to the BEB on a regular basis for current usage, that the BEB commercial debt is being serviced on time, and that appropriate management reforms are taking place;

(3) Evidence that legal and/or legislative steps are necessary to change BMB's functions and responsibilities as previously agreed to have been taken; and

(4) Evidence that satisfactory progress is being made in addressing any defficiencies revealed in the mid-term review of non-financial public sector savings.

## II. BACKGROUND

### A. Recent Economic Performance

Growth in the Belizean economy has slowed dramatically since the end of the last decade. Whereas GDP growth averaged 4.5% annually during the 1970's, the economy has experienced only stagnation during the first half of the 1980's. Real GDP grew by only 1% in 1981, fell by over 5% in 1982 and rebounded by a mere 1% in 1983. The slump in the world price of sugar (the sugar sector generates about 20% of GDP), a slowdown in construction activity and a virtual halt to the re-export and transhipment trade with Mexico were the factors primarily responsible for the economic decline.

As in most small open economies, inflation in Belize is generally determined by import prices. Consumer prices increased from 7% in 1980 to 13% in 1981 as world inflation surged and as this higher price level was validated by large wage increases in the sugar sector that spread throughout the rest of the economy. The pace of inflation moderated in 1982 and 1983 as the price of imports declined and as wage pressures subsided.

Along with stagnation in economic growth usually comes imbalances in the internal and external accounts of the economy and Belize has been no exception to this general experience. Public sector expenditures have continued to rise while

TABLE I BELIZE: GDP TRENDS AND PROJECTIONS

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 1/ | 1985 2/ |
|---|---|---|---|---|---|---|---|---|
| | | | | (in millions of Belize Dollars) | | | | |
| GDP at current market prices | 242.4 | 282.4 | 342.4 | 366.1 | 332.3 | 348.3 | 366.3 | 392.0 |
| (% change) | | (16.5) | (21.2) | (6.9) | (-9.3) | (4.8) | (5.0) | (7.0) |
| GDP in 1980 market prices | 319.3 | 323.7 | 342.4 | 345.5 | 325.8 | 330.0 | 337.0 | 347.0 |
| (% change) | | (1.4) | (5.8) | (1.0) | (-5.8) | (1.0) | (2.0) | (3.0) |

Source: IMF and IBRD

1/ Preliminary estimate

2/ Projections under the current stabilization program.

revenues have remained constant or have fallen. Growing public sector deficits have maintained a high level of domestic demand at a time when export receipts were falling. The inevitable result has been increasing balance of payments deficits, with net international reserves projected to be a negative US$2.8 million in 1984.

1. Public sector finances were the first casualty of the slowdown in economic activity. The financial position of the consolidated public sector remained strong through FY 1980/81, but weakened in the following two years. The overall deficit of the nonfinancial public sector rose from 4% of GDP in FY 1980/81 to about 9% of GDP in FY 1982/83.

In Belize, the public sector consists of the general government, which is made up of the Central Government and the municipalities, and the public sector enterprises.Before FY 1982/83, public sector finances had been characterized by modest savings in the general government and a small operating deficit in the public sector enterprises. However, in FY 1982/83 the situation began to deteriorate. Savings in the general government began to be squeezed as a fall in foreign trade and income led to falling government revenues while expenditures rose as a result of salary increases awarded shortly before independence. The operating deficit of the public sector enterprises more than doubled between FY 1980/81 and FY 1982/83, due primarily to inefficiencies in management of the Belize Electricity Board and secondarily to inappropriate pricing policies in the Marketing Board and to production inefficiencies in the Banana Control Board. The downward trend in the savings of the general government and the upward trend in the operating deficit of the public enterprises resulted in a contraction in overall public sector savings from 4.0% of GDP in FY 1980/81 to virtually zero in FY 1982/83.

As the public sector financial situation began to weaken after FY 1980/81, the burden fell on banking system credit to finance the growing deficits. In FY 1981/82 and in FY 1982/83, net external credits continued to finance well over 50% of the overall public sector deficits. But in FY 1983/84 with the drop in the external flows (see below), domestic credit rose sharply to fill the gap. In FY 1983/84, banking system credit financed about 80% of the public sector deficit. At the same time, the composition of banking system claims on the government changed with that of the commercial banks falling and that of the Central Bank rising.

The fiscal situation at the end of FY 1983/84 was characterized by a severe liquidity shortage. Further domestic financing was not available; Central Bank advances were at the statutory limit and commercial bank portfolios could not accommodate more holdings of treasury bills. Consequently, by March 31, 1984 the government had accumulated BZ$4.3 million arrears in interest and external transfers.

## TABLE II BELIZE: CONSOLIDATED OPERATIONS OF THE NONFINANCIAL PUBLIC SECTOR[1]

(in millions of Belize Dollars)[3]

| | 1978[2] | 1979 | 1980/81 | 1981/82 | 1982/83 | 1983/84 [4] | 1984/85 [5] | 1985/86 [5] |
|---|---|---|---|---|---|---|---|---|
| Total revenue and grants | 63.5 | 78.4 | 94.5 | 99.7 | 101.2 | 100.5 | 111.3 | 115.1 |
| Revenue of general govt. | 55.9 | 64 4 | 81.6 | 86.4 | 84.2 | 84.4 | 101.8 | 109.6 |
| Grants | 7.6 | 14.0 | 12.9 | 13.3 | 17.0 | 16.1 | 9.5 | 5.5 |
| Total expenditure | 87.0 | 104.1 | 108.3 | 122.1 | 131.4 | 128.8 | 132.5 | 135.7 |
| Current expenditure of the general government | 43.5 | 52.7 | 64.8 | 76.5 | 82.4 | 87.5 | 91.4 | 95.7 |
| Public enterprise operating deficit | -3.7 | -1.4 | -1.2 | -1.5 | -2.8 | -4.4 | -1.2 | - |
| Development Expenditures | 39.8 | 51.4 | 42.3 | 44.1 | 46.2 | 36.9 | 39.9 | 40.0 |
| General government | - | - | (34.9) | (31.9) | (27.7) | (24.6) | (31.4) | (30.9) |
| Public enterprises | - | - | (7.4) | (12.2) | (18.5) | (12.3) | (8.5) | (9.1) |
| Overall deficit | -23.5 | -25.7 | -13.8 | -22.4 | -30.2 | -28.3 | -21.2 | -20.6 |
| Change in external arrears | - | - | - | - | .4 | 3.9 | -2.9 | -1.4 |
| Financing (net) | 23.5 | 25.7 | 13.8 | 22.4 | 29.8 | 24.4 | 24.1 | 22.0 |
| External (net) | 16.8 | 23.6 | 8.6 | 12.9 | 18.3 | 4.7 | 28.1 | 31.2 |
| Domestic (net) | 6.7 | 2.1 | 5.2 | 9.5 | 11.5 | 19.7 | -4.0 | -9.2 |
| Banking system | - | - | (4.3) | (9.9) | (11.9) | (18.1) | (-4.0) | (-9.2) |
| Central Bank | - | - | (-2.2) | (13.5) | (.4) | (14.0) | (3.7) | (-) |
| Commercial banks | - | - | (6.5) | (-3.6) | (11.5) | (4.1) | (-7.7) | (-) |
| Other | - | - | (.9) | (-.4) | (-.4) | (1.6) | - | - |
| Memo items | | | | | | | | |
| Public sector savings[6] | 8.7 | 10.3 | 15.6 | 8.4 | -1.0 | -7.5 | 9.2 | 13.9 |
| (as % of GDP)[7] | (3.5%) | (3.6%) | (4.6%) | (2.3%) | (-.03%) | (-2.1%) | (2.5%) | (3.5%) |
| Overall deficit as % of GDP[7] | 9.7% | 9.1% | 4.0% | 6.1% | 9.1% | 8.0% | 5.7% | 5.1% |

Source: IMF, IBRD and ROCAP estimates

## FOOTNOTES

1/ Consists of the Central Government, local governments, the Social Security Board and eight nonfinancial public enterprises.

2/ Prior to 1980, the fiscal year coincided with the calendar year. Since 1980, the fiscal year runs from April through March 31.

3/ Exchange rate: US$1 = BZ$2

4/ Preliminary estimates

5/ Projections under the current stabilization program.

6/ Calculated as current revenue less current expenditures of the general government and GOB public enterprise operating deficit.

7/ Calculated in relation to calendar year GDP.

TABLE III BELIZE: BALANCE OF PAYMENTS

| | 1980 | 1981 | 1982 | 1983 | 1984 1/ | 1985 2/ |
|---|---|---|---|---|---|---|
| | | | (millions of U.S. Dollars) | | | |
| Current account | -3.7 | -4.7 | -18.4 | -11.0 | -15.8 | -14.0 |
| Trade balance | -38.9 | -43.0 | -54.4 | -45.2 | -47.4 | -46.1 |
| Exports FOB | (82.0) | (74.7) | (59.8) | (65.1) | (70.0) | (77.7) |
| Imports CIF | (-120.9) | (-117.7) | (-114.2) | (-110.3) | (-117.4) | (-123.8) |
| Services (net) | 13.2 | 14.1 | 11.0 | 9.6 | 9.0 | 10.5 |
| Transfers (net) | 22.0 | 24.2 | 25.0 | 24.6 | 22.6 | 21.6 |
| Capital account | 5.5 | 2.4 | 18.2 | 2.0 | 9.7 | 23.6 |
| Public (net) | 4.9 | 8.4 | 8.9 | 3.5 | 12.9 | 25.2 |
| Private (net) | .8 | 1.8 | 11.2 | -5.5 | -3.2 | -1.6 |
| errors and omissions | -.2 | -7.8 | -1.9 | 4.0 | - | - |
| Change in arrears | - | - | - | 5.1 | -.4 | -4.6 |
| Change in net official reserves (increase - | -1.8 | 2.3 | .2 | 3.9 | 6.5 | -5.0 |

Source: IMF

1/ Preliminary estimate
2/ Projection under the current stabilization program.

2. The balance of payments has been the inevitable victim of the worsening financial picture in the public sector. Until 1983, the current account had been characterized by large trade deficits offset in part by positive balances in the services and transfers accounts. Net flows on the capital account have usually been adequate to cover the current account deficits as Belize had been receiving a steady flow of development assistance and the commercial banks had no difficulty increasing their liabilities vis-a-vis their home offices.

However, in 1982, this situation suddenly changed. The current account deficit more than doubled between 1981 and 1983. Export revenues fell as world sugar prices fell and the re-export trade with Mexico virtually disappeared with the devaluation of the Mexican Peso. Imports, however, remained at a high level due to strong domestic demand that was fueled by continuing public sector deficits..

While current account deficits were increasing, the capital account surpluses were falling. The surplus on capital account fell to US$2.0 million in 1983 as foreign assistance flows shrank with the completion of several development projects and as commercial banks reduced their liabilities with their home offices.

The consequence of these two trends was a widening of the overall balance of payments deficit. Net official foreign reserves fell by US$7 million during the period of 1981-1983 excluding US$5.1 million in payments arrears in 1983.

Preliminary figures show that the situation will not improve in 1984. The capital account will improve with access to IMF resources under the recently approved standby arrangement. But the current account is projected to worsen by US$6 million and the government is obliged under the IMF standby arrangement to begin clearing external arrears. Current projections show net official reserves falling by an additional US$6.5 million in 1984, leaving net international reserves at negative US$2.8 million and gross reserves at US$14 million, an amount equivalent to five weeks of imports.

B. Constraints to Growth and Development.

Beyond the current challenge of economic stabilization, Belize faces long-term problems associated with economic growth and development. One, the fiscal problem, is financial in nature. Another, the policy matrix, refers to the adequacy of the policy instruments that the government is employing to influence the course of economic growth. Two others, the lack of diversification and the paucity of infrastructure, refer to structural deficiencies in the economy itself.

1. The fiscal problem in Belize is serious and threatens to derail both economic stabilization and public sector investment. There are two structural problems confronting public sector finances: low savings and little control over the eight public sector enterprises. The low efficiency of collections and the lack of buoyancy of the tax system in the face of rising recurrent costs are responsible for the disappearance of savings. Without savings, there will be no domestic resources to finance capital formation without recourse to borrowing from the financial system and the government will face the ever-present temptation to cut development expenditures, a lamentable mea ure in a country with a low level of infrastructure development.

The nonfinancial public sector enterprises as a group have been characterized as disorganized and mismanaged. Whereas the central government has exercised restraint in its wage policy, the state enterprises have allowed generous wage increases. These enterprises have also engaged in borrowing without central government control, complicating the debt management of the public sector. Altogether, the state companies in FY 1982/83 received $5.5 million in transfers from the central government to cover current operating deficits and part of their investment budgets a sizeable fiscal drain representing 15% of government revenue.

Of the eight, three constitute the greatest problem: the Belize Electricity Board (BEB), the Banana Control Board (BCB) and the Belize Marketing Board (BMB). The other five either operate near the break-even point or generate a small surplus. The electricity system is fragmented, inefficient and poorly managed. The BCB is plagued by high costs and a volume of production that does not make the operation profitable. The BMB is engaged in the trading of a wide variety of basic grains through which it sustains losses by subsidizing high prices to farmers. Of these three, the BEB represents the largest burden on central government revenues, accounting for nearly 70% of the operating deficit of all the public sector enterprises.

2. Belize is probably the most open economy in Central America and the policy matrix is, with the exceptions discussed below, relatively free of irrational market interventions. The exchange rate regime and interest rate regime have not produced economically inefficient relative prices in the economy. But there are features of the policy matrix that could have adverse effects on resource allocation that will be the subject of the ESF Policy reform agenda. These relate to the foreign trade regime and domestic pricing policies.

a. The principal items in the policy matrix, the exchange rate regime and the interest rate regime, are, not large problems at this time. Although Belize's balance of payments problems raise the issue of devaluation of the national currency, we would argue that demand management through fiscal adjustment and an attack on supply side constraints is, at present, a preferred approach to external adjustment. Our policy dialogue with the GOB will, however, emphasize that exchange rate stability is closely linked with the containment of domestic cost pressures. Accordingly, other approaches to reducing the trade deficit will be emphasized. The fiscal deficit must be reduced both to improve government finances as well as to reduce domestic demand. A reduction in domestic demand will contribute to external balance over the short run, while over the medium term, attacks on supply side constraints through projects to deepen the domestic capital market and to improve the productive infrastructure will help attract investment that will diversify the export base.

If the authorities are not successful with the adjustment program, wages and prices may begin to erode profitability in the export sector. Consequently, the policy dialogue between the GOB and USAID will then focus on the fact that continued export competitiveness is related to containing domestic cost pressures and failing that, the authorities may need to implement a flexible exchange rate policy. A review of the appropriateness of the exchange rate will be undertaken during the development of the Export Development Project.

Domestic interest rats, the other principal item in the policy matrix, appears to be giving the proper price signals to depositors and investors. A flexible interest rate policy was introduced in 1980 to keep deposit rates in line with interest rates abroad. In early 1984, the deposit rate was reduced to 9%, positive in real terms, but giving the depositors somewhat less vis-a-vis U.S. dollar denominated instruments. At the present time, however, a shortage of liquidity in the banking system has put upward pressure on deposit rates and depositors are now receiving a positive real rate of interest that is higher than rates abroad. On the loan side, rates are also relatively high -- currently around 14% -- and free of subsidized credit lines.

b. Other items in the policy matrix may introduce elements of uncertainty in entrepreneural decision making. The first of these is the support price system of the Belize Marketing Board. High support prices tend to result in an oversupply of agricultural commodities causing a resource drain on the government and a lack of incentive for agricultural diversification.

Another area of concern is quantitative trade restrictions and duty exonerations. Import licenses have been used in Belize to ban the imports of certain items and to control the imports of others. Import bans were introduced in late 1982 to protect local production of certain products, but no beneficial effects are evident from these restrictions. For other products, exclusive import licenses generate economic rents to the holders of the licenses, that should accrue to the government through the tariff system. Import duty exonerations given to approved investment projects have been abused in the past and have denied revenue to the government. A minimum nominal duty in place of the exonerations would provide revenues to the government while not discouraging investment.

Lastly, domestic pricing policies have provided some control over product prices. They work through maximum wholesale and retail markups on imported goods and ceiling prices on domestically produced goods based on costs of production. There seems to be little enforcement of these controls and, consequently, few market distorting effects of the system

3. Lack of diversification in the productive sectors is probably the biggest constraint facing long-term economic growth in Belize. The primary sector (agriculture, forestry and fishing) accounts for some 40% of all economic activity and half of that is attributable to sugar. Other crops such as citrus and livestock are increasing in relative importance, but in general, trends in sugar prices -- and in the U.S. sugar quota -- will have a powerful influence on overall economic performance.

Manufacturing has a very small participation in GDP and most of this is centered in activities with direct links to the agricultural sector such as sugar processing. This is not a surprising characteristic of the economy, given its small domestic market and limited opportunities for import substitution. Future diversification and growth in the manufacturing sector will, by necessity, be based on diversification in agriculture (processing of fruits and vegetables, for example) and will be oriented toward the foreign market.

The very narrow range of productive activities is, in large part, responsible for the unemployment problem in Belize. With a small population relative to the available natural resources, especially in agriculture, it would be difficult to argue that unemployment is a serious problem. Yet it exists and is very visible; in 1980 the unemployed numbered some 6,800 or 14% of the workforce, of which 50% were in Belize City. Even though employment opportunities exist in agriculture, and in the rural areas generally, they meet neither the training nor the expectations of the unemployed. In absolute terms, however, the problem is not large and will likely disappear with investment in manufacturing and services located near the urban areas.

4. Lastly, Belize suffers from a paucity of productive infrastucture. There is a good national telephone system, but in all other areas the infrastructure is seriously deficient. Diesel generation supplies power to 60% of the population; but the service is expensive and unreliable. The only railroad fell into disuse over two decades ago. There is no natural deep water harbor; only at Belize City is there a deep water port facility accommodating ships up to a 17-foot draft. The road system is poor, having only a limited network of secondary and access roads.

The Government of Belize and the World Bank staff believe that given Belize's low level of infrastructure development, public investment equivalent to about 12% of GDP is necessary to achieve economic growth rates similar to those that prevailed in the 1970s. Present levels of investment are much lower. Consequently, not only must currently programmed development expenditures be maintained, but the level of investment should be increased.

## C. The 1984-86 Stabilization Program

The Government of Belize took steps early in 1984 to frame a coherent economic stabilization program. The first step was to improve revenues of the central government. Accordingly, new taxes were introduced in March and June of 1984. These measures, which included increases in the excise tax on locally produced beer, a new excise tax on soft drinks, and increases in the gasoline and stamp taxes, are projected to yield the equivalent of 3.5% of GDP on a full fiscal year basis. The second step was to improve the revenue of the public sector enterprises by increasing the rates for water and electricity. Hastly, the government made an effort to improve the efficiency of tax collections by increasing the penalty for non payment, by centralizing collections in the Ministry of Finance and by streamlining judicial procedures.

In September of 1984, an IMF team visited Belize to negotiate a standby arrangement that would support the GOB stabilization program by allowing access to Fund resources in an amount equivalent to SDR 7.125 million. The centerpiece of the program is a turnaround in public sector savings from a dissavings of 2% in FY1983/84 to a savings equivalent to 3.5% of GDP in FY1985/86. This will permit a reduction in the overall public sector deficit to some 5% of GDP in FY1985/86. The reduction in the public sector deficit will lower excess demand in the economy and permit an improvement in Belize's external position. Net international reserves are targeted to improve by $US5.0 million in 1985, and external arrears will be eliminated by the end of the year. Other targets include an improvement in the maturity structure of public external debt and the elimination of quantitative trade restrictions.

In order to achieve these targets, the government has adopted the following set of instruments:

(1) increased revenues through the newly enacted taxes;

(2) improved revenue collections;

(3) control over central government current expenditures;

(4) improved operational efficiency of the public sector enterprises including rational pricing policies.

(5) strengthening the Office of Management and Budget and the introduction of a consolidated budget for the nonfinancial public sector;

(6) the establishment of a high level commission to approve all external debt transactions and of an office in the Central Bank to monitor these transactions.

The IMF has introduced quantitative performance criteria in order to monitor progress under the program. These are ceilings on net domestic assets of the central bank, on net credit from the banking system to the nonfinancial public sector, on outstanding public debt with a maturity of 12 years or less and on outstanding payments arrears. The pupose of the first two is to monitor the flow of domestic credit to the public sector and the purpose of the latter two is to monitor developments with respect to net international reserves.

The government's stabilization program can be characterized as ambitious. It is unlikely that the savings target can be met without additional taxes--beyond those already enacted--and without vastly improved tax collections, including past due obligations. This should not be interpreted as meaning that the savings target is inappropriate; a savings rate of 3.5% of GDP is essential and should be achieved as soon as possible. Beyond the program period, this ratio should be increased further, to perhaps 5%.

The assumptions underlying the program may be optimistic. Real rates of GDP growth of 2% in 1984 and 3% in 1985 are forecast. The rate of inflation, measured by the CPI, is predicted to be 3% in 1984 and 4% in 1985. A 3% real rate of growth in 1985, given the slowdown in the rate of growth in the US and given the recent sluggish performance in world commodity prices, may not be attainable. If not, the Fund will find it necessary to reconsider the targets and quantitative performance criteria of the financial program.

The IMF performance criteria do not directly enforce the adoption of certain measures that the U.S. Government deems necessary for the overall improvement of public sector finances. The first of these is the abolition of quantitative trade restrictions. The second is the financial restructuring of the BEB which is essential if the operational efficiency of the enterprise is to be improved. USAID's proposed ESF conditionality and policy dialogue constitute an important complement to the Fund's program to help assure sustained improvement in important areas of public sector finances.

## III. THE 1985/86 ESF PROGRAM

### A. Conditionality Strategy

This ESF program follows a previous US$4.6 million ESF loan that was disbursed early in 1983. The economic problems facing the GOB at that time proved to be more serious than envisaged. The government was not able to frame a stabilization program until the following year; consequently, the conditionality under the loan -- mainly that pertaining to public sector savings -- was not met.

The purpose of the 1985/86 ESF program is to support the GOB stabilization program put into effect late in 1984. Dollar cash transfers will provide additional external resources to the monetary authorities of Belize at a time when they will be facing severe balance of payments difficulties. The local currency equivalent of the dollar transfers will be used to provide budget support at a time when the GOB will be effecting a comprehensive structural reform of public sector finances. The budget support will enable the GOB to meet obligations in the public sector capital account until such time as public sector savings are adequate to finance capital formation.

Conditionality under the ESF loan will focus on those problems in the economy that relate to the thrust of the program: improving public sector finances. Accordingly, the GOB will be required to take all possible measures to achieve the savings target set down under the stabilization program and to effect reforms in the two parastatals causing the heaviest fiscal drain among all the public sector enterprises: the BEB and the BMB. Furthermore, these economies would not come at the expense of public sector investment which is actually programmed to increase over the program period. The GOB will also be required to review domestic pricing policies and the foreign trade regime, items of the policy matrix which do not directly affect public sector finances, but which could, in the future, prove to be impediments to efficient resource allocation.

## B. Belize Electricity Board (BEB)

The BEB is a government-controlled statutory body beset with serious financial and management problems. As a result, electricity is unreliable and expensive; Belize has no long-term energy plan to provide for an orderly expansion of electrical generating capacity; and the BEB is in such financial disarray that international lenders such as the World Bank are reluctant to provide financial assistance to the energy sector in Belize. Four of the country's nine public enterprises required some budget support from the Central Government in FY83/84. Of these four, the BEB absorbed the majority of the subsidy payments, B$8.5 million, representing slightly more than 70% of the four enterprises' total operating deficits, or more than 10% of Central Government revenues.

If Belize is to take best advantage of the various initiatives and programs being directed at Central America and the Caribbean, and specifically, if it is to attract foreign investors, the BEB must be better managed and able to make cost-effective decisions. Electricity may always be relatively expensive in Belize. But, it is important that the price reflect an efficient operation so that it can be as low as possible in order to stimulate economic development, while still leaving the BEB with a sufficient surplus to allow for future growth.

To partially offset the operating deficit, the BEB recently raised the tariff by 16%, bringing the cost of electricity to US$0.22/kwh, easily one of the highest rates in the region. However, World Bank estimates indicate that, even combining this high rate with several cost reductions will not produce enough of a surplus for the BEB to retire its large outstanding debt both to the GOB and to commercial firms. On March 31, 1984, the GOB owed the BEB approximately US$ 2 million for back electricity bills, while the BEB owed the GOB about US$ 8.3 million for various advances over the years to cover operating costs and service debt. There were also approximately US$ 2 million in short-term trade credits due PEMEX and CFE, a Mexican utility. Finally, there are US$ 12.8 million in long-term commercial debt comprising fuel loans, a CDB loan, a supplier's loan, and an overdraft account with Baclays.

Under this ESF program, the way will be cleared for a World Bank energy sector loan that will be initiated in 1986. The BEB debt will be restructured by conversion of all, or some portion of, net BEB liabilities to the GOB into equity, by the temporary assumption of all BEB commercial debts by the GOB until such time that the BEB can take full responsibility for its debts, and by the GOB meeting its accummulated past due electricity bills. Additionally, the BEB will contract advisory services in financial management.

C. The Belize Marketing Board (BMB)

1. The Belize Marketing Board (BMB) is a statutory body that operates rice mills, buys and sells local products (such as rice, corn and red kidney beans) and imports milk.

2. While the BMB recently improved management sufficiently to reduce operating deficits, historically it has failed to meet the objectives of its charter. The BMB was established to provide an assured market for farmers' produce at fair prices. It was primarily intended to work at the margins, purchasing from farmers as a buyer of last resort and selling to consumers when prices began to rise beyond a pre-determined "reasonable" level.

3. Through the years, the board has been reshaped and its terms of reference has been stretched beyond their limits, often for political expediency. The result has been to disrupt rather than stabilize the market. Prices of commodities have often been set at unrealistically high levels causing over production which destroys the commercial market, leaving BMB warehouse facilities overflowing with spoiling commodities, and is a severe drain on the GOB's meager treasury. The following year farmers are hesitant to plant and a shortage of basic food commodities ensures.

4. During the past year, management of the BMB has improved and coupled with an acute shortage of funds, politicians have been unable to mount patronage schemes. Accordingly, the symptoms of a less than adequately conceived marketing board have not been apparent. Nonetheless, unless steps are taken to devise a mechanism for providing realistic production incentives, a modern storage capacity capable of storing a minimum of six month's normal consumption of basic commodities (rice, corn and beans), and a scheme for releasing these commodities to consumers at fair prices during periods of shortages, basic food security is not likely to be achieved.

5. The GOB is cognizant of the need to provide national food security, rationalize BMB functions, insulate BMB from political pressures and minimize the current drain on the national treasury. Hence, there is a need to restructure the BMB functions into an entity offering a market clearing mechanism for agricultural products.

6. While the details on the appropriate structuring of this facility remain to be developed by a team of qualified professionals, the GOB has agreed in principle not only to this restructuring but also to exploring ways to divest itself of this parastatal. The latter step will be fully explained during the course of the proposed study, although the small Belizean market may preclude a total divestiture to the private sector.

7. In the event the new entity does not have government sponsorship, the proposed board of directors would include producers, consumers and traders. Its initial funding could come either from a GOB loan or donor support and include capital costs for new modern storage facilities, an operating budget and a revolving fund for the purchase of farm commodities. Facilities could be limited to appropriately located storage, office and support facilities. All other facilities such as the rice mill at Big Falls, now owned by the BMB, would be offered for sale to the private sector.

8. The board of directors would appoint a general manager who would operate the corporation and hire the balance of the staff. The general manager would be charged with implementing policy and operating procedures developed by the board of directors. The board of directors, supported by the Ministry of Natural Resources Policy Analysis Section, would establish the spectrum of commodities to be purchased by the corporation, establish the prices to be offered to producers for this group of commodities as well as a triggering mechanism for the sale of the stored commodities as prices reise beyond the predetermined level.

9. This concept will be worked through step-by-step by a team of qualified professionals over an adequate period of time. Once a concensus is reached on all aspects of the proposed corporation requisite, legislation will have to be enacted and funds to support the capital and operating budgets will need to be identified.

## IV. PROJECT ASSISTANCE

Of the total $14 million ESF program, an amount of $1.0 million in grant funds has been allocated to finance a related program of technical assistance (see budget on following page). This TA program will focus on funding activities which directly support the conditionality strategy described above and the Mission's on-going policy dialogue with the GOB, and will include three separate components.

### A. Technical Assistance to the BEB

The major component of the TA program is the provision of managerial and financial advisory services to the BEB to accompany the planned World Bank loan. These services will be essential to guide BEB in the restructuring of its debt and in formulating and implementing internal reforms needed to improve the management of BEB's finances and operations, both of which are conditions under the ESF program. It is expected that two advisors will be required, for up to two-and-a-half years each. Draft scopes of work for these advisors are included in Annex B. The advisors would be hired under personal services contracts, and should begin work by June 1, 1985. The estimated cost of this component is $750,000.

B. Study of Belize Trade and Exchange

A second component of the TA program will be a two-part study, addressing (a) domestic price controls and (b) trade policies and practices. This study will identify existing policies and regulations in these areas, assess the impact of these, and make recommendations as to whether they should be retained, modified, or eliminated. In the trade area, special attention will be given to examining the extent of tariff exonerations, and the feasibility of eliminating them, subject to domestic legislation on investment incentives and obligations to its trading neighbors undertaken in the context of CARICOM. A draft scope of work for this component is also attached at Annex B. It is expected that this study will be carried out by individual consultants under personal services contracts, and will begin no later than July 1, 1985. This component is expected to cost an estimated $25,500.

C. Study of the Belize Marketing Board

The third TA component is a comprehensive review of the operations and policies of the BMB, undertaken with a view to reducing or eliminating the public sector role in commodity price stabilization and establishing a rational market clearing mechanism for agricultural products in Belize. The study will analyze institutional and policy options for accomplishing these goals, make recommendations among these options, and provide an action plan for implementing these recommendations. The study is expected to take up to six months, and will assist the GOB in fulfilling one of the conditions established for disbursements under this program. A scope of work for this study is being developed by staff of USAID/Belize and LAC/DR, with assistance from S & T. It is likely that the study would be carried out by Kansas State University, under a cooperative agreement with S & T in grain marketing, and would begin by July 1, 1985. The estimated cost of carrying out this study is $150,000.

In addition to these three components, the TA program includes funding for consultants to assist the Mission and the GOB in monitoring the public sector savings performance, required to fulfill one of the key conditions of disbursement under this program. It is expected that this monitoring task will require from two to three consultants for a period of up to six weeks, to develop appropriate performance criteria and the needed data base, and to review actual performance. The consultants will make two trips to Belize, one in June to develop the methodology and conduct a preliminary review of performance, and a second in October 1985 to conduct a formal assessment in fulfillment of the December 1985 condition. These individuals will also be recruited under personal services contracts.

To assist the Mission and the GOB in implementing this program, scopes of work have been or are being prepared in AID/W, and will be made available to the Mission to review with the GOB. In addition, AID/W will provide the Mission with a list of qualified candidates for each position, from which the Mission, in collaboration with the GOB, will select its preferred candidate. The Mission will be responsible for all contracting actions. Disbursements under the TA program will follow direct payment procedures.

D. Budget for Technical Assistance Program

| | |
|---|---|
| 1. Consultants (3) for monitoring public sector savings | |
| 3 X 35 days @ $400/day* | $ 42,000 |
| 3 X 2 roundtrip tickets | 2,500 |
| 2. Trade and Price Studies<br>(a) review of domestic prices and price controls<br>(b) review of trade policy and practices | |
| 2 advisors X 30 days @ $400/day* | 24,000 |
| 2 X 1 roundtrip ticket | 1,500 |
| 3. Program for Restructuring BMB | |
| Study (6 months) | 150,000 |
| 4. Advisors to BEB | |
| 2 advisors @ $150,000/yr. X 2.5 years | 750,000 |
| 5. Miscellaneous | 30,000 |
| GRAND TOTAL | $1,000,000 |

*$400/day consultant cost estimate includes fees and overhead.

E. Programming of Local Currency

As is the standard practice in cash transfer programs, the Central Bank of Belize (CBB) will establish a special account that will remain under the control of USAID/Belize. As quarterly U.S. dollar disbursements under the $13 million cash transfer are made to the account of the CBB, the special account will be credited with the local currency equivalent. As such, the special account will not enter the liabilities nor assets of the CBB and consequently, will not affect the ceilings under the recently approved IMF standby arrangement. Disbursements in local currency from the special account will be approved by the USAID Representative in Belize for expenditures associated with the development budget.

The objective of the local currency programming under the ESF program will be to guarantee continued capital spending in the face of any unanticipated shortfall in public sector savings. This conditional use of the funds will allow USAID to insure that a reasonable balance is struck between current consumption and investment demands so that future growth is not jeopardized by present consumption. Priority will be given to funding GOB counterpart obligations associated with development projects of international donors (including USAID) and local capital expenditures for domestic projects. These items make up the Capital II budget of the GOB. At the discretion of the AID Representative, and as he may agree with the appropriate GOB authorities, any remaining balances at each quarter will be available to fund other items in the GOB budget.

In addition, an amount of from $600,000 to $750,000 of the local currency counterpart under the balance of payments program will be used to defray the local currency operating costs of the USAID mission in Belize. Since these costs have been estimated at $225,000 per year, this allocation should cover the Mission's local currency operating expenses for the remainder of FY85, and throughout FY86 and FY87.

F. Implementation Arrangements

1. Monitoring of U.S. Imports - In order to monitor compliance with the covenant requiring an equivalent amount of imports of goods and services from the US within twelve months of each disbursement, the Mission will request documentation from the Central Bank listing eligible imports which were purchased during each quarter. In addition, the Mission will carry out ex post spot checks with importers to verify that reported imports were in fact purchased.

2. Payment Verification - The method of payment for the non-project assistance authorized under this PAAD is dollar payment through electronic fund transfer (EFT), which is a preferred method of financing under the Administrator's payment

verification policy statement. The cash transfer will be conditioned on the provision of an equivalent amount of local currency counterpart funds by the GOB which will be jointly programmed and monitored by AID and the GOB as outlined above. The method of payment for the grant-funded TA program will be direct payment under direct AID contracts.

3. Contracting for Technical Assistance Program - All contracting for the TA program will be carried out by the Mission, which will, for each separate component, execute a direct AID contract. The GOB will, however, review and approve the proposed scopes of work and participate in contractor selection. Contractor supervision will be the responsibility of the Mission.

ANNEX A

ESF

COUNTRY CHECKLIST

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481; FY 1984 Continuing Resolution. Has it been determined or certified to the Congress by the President that the Government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents, or from entering the United States unlawfully? NO

2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor of any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? NO



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3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? NO

4. FAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? NO

5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981. N/A

6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property? NO

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC? NO

8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?

(b) If so, has any deduction required by the Fishermen's Protective Act been made?

NO

9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country?

(b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds?

NO

10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

YES, TAKEN INTO ACCOUNT BY THE ADMINISTRATION AT TIME OF APPROVAL OF AGENCY OYB.

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11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

NO

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

CURRENT

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

NO

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

NO

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards?

NO

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Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.) NO

17. ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti. N/A

18. FY 1984 Continuing Resolution. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? NO

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? N/A

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest? NO

b. ISDCA of 1981, Sec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.? N/A

c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made significant progress in human rights; (b) it is in the national interest of the U.S.; and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier? N/A

## PROJECT CHECKLIST

### A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

   (a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?

   CONGRESSIONAL PRESENTATIONS

   YES

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

   N/A

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   N/A

4. FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973?

   N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? N/A

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. N/A

7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

A) YES
B) YES
C) NO
D) YES
E) YES
F) NO

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

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.

9. FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

N/A

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

NO

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

N/A

12. FY 1982 Appropriation Act. Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

NO

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16? Does the project or program take into consideration the problem of the destruction of tropical forests? **N/A**

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? **N/A**

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

N/A

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b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used? N/A

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? N/A

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the cost of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? N/A

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than $100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character. N/A

f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? N/A

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intelectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government. N/A

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest. N/A

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? N/A

c. ISDCA of 1981, Sec. 724(c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)? N/A

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

ECONOMIC STABILITY
YES

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

NO

c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?

NO

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

N/A

Annex B

DRAFT

Terms of Reference

Study of Belize Trade and Exchange Regime

## Background

Belize has experienced serious deficits in the over-all balance of payments in each of the past four years, culminating in a record loss of some $6.5 million in net international reserves during 1984. Moreover, by end-1984, external debt arrearages were of the order of $5 million.

The value of exports began increasing in 1983, after falling 27% during the two year period, 1981-1982. Estimated at $70 million, 1984 export proceeds were just 85% of 1980 levels. Imports did not adjust to the decline in the value of exports. Consequently, the trade deficit has been relatively large, averaging 70% of the value of exports over the four year period, 1981-1984.

Despite large trade deficits, the unofficial premium over the official BZ $2.00 = US $1.00 exchange rate is only in the 10-15% range, and domestic inflation has been low (consumer prices rose just 1.5% in 1983, for example). The large trade deficits and low inflation imply significant over-valuation of the exchange rate. However, it has not been clearly established that the appreciation of the Belize dollar in recent years has adversely affected traditional exports or the ability to diversify and increase exports of non-traditional products.

Although there are no trade restrictions for balance of payments reasons as such, the Belize trade and exchange regime is characterized by numerous "development" incentives, import licensing, import bans, seemingly discretionary import tariffs, and product price controls, that if fully implemented, may distort efficient resource allocation, and discourage new private investment in many productive activities.

## Objective

The purpose of the study is to analyze the trade and exchange regime of Belize in terms of present and potential market distortions on efficient resource allocation and economic growth caused by existing import restrictions and product price controls. The study will emphasize the effects of the trade and exchange regime on agricultural diversification and export development needs.

Scope of Work

1. Detail tariff and non-tariff trade restrictions, with a view to estimating levels of effective protection, and the degree of discrimination against agricultural diversification and exports.

2. Detail and analyze the system of product price controls.

Distinguish between how price controls are implemented for imported products and for locally produced products. Does the system discriminate against locally produced products?

Discuss the over-all administration and enforcement of price controls, including the administrative capacity to monitor and enforce controls in ways that are not arbitrary. Does the system of product price controls reinforce the effects on efficient resource allocation of import prohibitions, import licenses, tariffs and tax exemptions? If so, detail.

Discuss the effect on future agricultural and industrial development and economic growth of the removal of product price controls on (1) imports and (2) locally produced goods. Discuss how product price controls affect agriculture and export industries.

3. Conduct a preliminary appraisal of the appropriateness of the fixed official exchange rate on Belize's international competitiveness, with a view to identifying distortions in the relative prices of traded goods caused by wrong exchange rates (for example, compare the price of selected locally produced goods to the value of imported equivalents, and indicate how much of the difference may be due to wrong exchange rates, and how much to trade restrictions). Should exchange rates appear to be a major factor affecting export competitiveness suggest a scope of work for future study.

4. Based on the findings in (1), (2), and (3), above, discuss with USAID/Belize and the ROCAP economic staff the exchange rate and structural adjustment measures that would result in improved operation of the trade and exchange regime, by better allocation of scarce resources, and stimulation of new investment [especially in the agriculture and export sectors].

Discuss with USAID/Belize and the ROCAP economic staff, an appropriate set of conditionality strategy for leveraging

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desired reforms, and recommend a course of action for implementation under proposed development projects in agriculture and export development.

5. Reports: Prior to departure from Belize, the consultant will submit to the A.I.D. Representative a report on the findings and recommendations encompassed in 1 - 4 above.

Assistance Requirements

The services of a senior economist for a period of not less than eight weeks is required. Background should include 3-5 years experience in the evaluation of foreign trade regimes in LDCs, and 1-2 years experience in the English-speaking Caribbean. A solid understanding of open economy macro-economics is essential.

ANNEX B2

DRAFT SCOPE OF WORK

Management Advisor

Duration: 24 months, with possibility of extension

Date Required: July 1, 1985

Duty Station: Belize City, Belize CA

Language: English

Qualifications: A university degree with specialization in engineering or membership in an internationally recognized professional engineering institution. At least five years senior management experience with exposure to administrative, engineering and financial aspects of managing a power utility.

Duties: The management advisor will be responsible for advising and assisting the General Manager in carrying out his responsibilities for the management and direction of the affairs of the Belize Electricity Board. His duties will specifically include advising and assisting in:

(a) the preparation and presentation of documents for Government and Board approval;

(b) devising policies and making plans for their execution;

(c) the development and maintenance of an effective organization and the recruitment, selection and compensation of key personnel;

(d) the overall monitoring of the progress of large capital projects and in resolving problems in their implementation;

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(e) the preparation and evaluation of capital spending proposals for the development of power facilities;

(f) the establishment of annual budgeted revenues and expenses, the establishment of targets and standards for operation and maintenance, and the monitoring of performance;

(g) ensuring adequate training programs are devised and carried out and recommending changes, where appropriate;

(h) undertaking tariff reviews and recommending changes, where appropriate;

(i) the identification of important management problems and deciding appropriate solutions; and

(j) ensuring that adequate reporting procedures are employed by the Board to inform management of key happenings and assist in future planning.

ANNEX B 3

DRAFT SCOPE OF WORK

Financial Advisor

| | |
|---|---|
| Duration: | 24 months, with possibility of extension |
| Date Required: | July 1, 1985 |
| Duty Station: | Belize City, Belize CA |
| Language: | English |
| Qualifications: | Membership of an internationally recognized professional accounting institution or a university degree, specializing in accounting, and a minimum of five years' experience in commercial accounting of which a substantial part should be at a senior level working in a power utility. |
| Duties: | The Financial advisor will be responsible for: |

1. Advising and assisting the Financial Controller of the Belize Electricity Board (BEB) in carrying out his duties and in identifying and implementing improvements on the operation of the accounting system as well as improving the system of financial planning. His duties will specifically include advising and assisting in:

(a) The preparation of financial forecasts and budgets;

(b) Analyzing significant deviations between actual and planning performance and advising on remedial actions;

(c) The maintenance of effective procedures for recording and reporting on capital expenditures;

(d) Preparing or supervising the preparation of financial statements and projections (balance sheets, income statements, source and application of funds statements) and other periodic financial reports;

(e) Supervision and maintenance of the accounting records;

(f) Estimating required tariff increases to meet BEB's cash needs and the requirements of agreements entered into with lending agencies. Preparing documents supporting requests for tariff increases; and

(g) Other financial and administrative matters as required by the BEB.

2. Arranging or providing on-the-job training, and such other training as is considered necessary, for the development of the professional capability of the Financial Controller and other accounting staff with the objective of developing a self sufficient local capability in accounting and financial administrative.

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