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FROM: Vice President and Corporate Secretary

Summary of Discussion at the Meeting of the Executive Directors
of the Bank and IDA, March 17, 2009*

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* This summary consists of staff notes of the discussion and is not an approved record.

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BELIZE – INTERIM STRATEGY NOTE

1. The Executive Directors of the Bank and IDA discussed the Interim Strategy Note (ISN) for Belize (R2009-0029, dated February 24, 2009; R2009-0029/1, dated March 17, 2009).
2. **Staff Introduction.** Staff said that the ISN was initiated at the request of the new administration, whose vision was to restore good governance and fiscal prudence as a means to returning the country to a sustainable and inclusive growth path. The ISN marked the renewal of a partnership with a country in which the Bank had had only limited engagement since the last CAS in 2000. The ISN was a modest two-year program with US\$15 million in lending and a heavy emphasis on AAA to inform government policy initiatives and build the analytical foundation for long-term engagement. The impacts of the global downturn on Belize had been muted to date, although some effects were starting to be felt. The global slowdown and the lasting impact of recent floods were expected to weaken growth prospects in the near term. The Bank's close working relationship with the government and the development community in Belize had resulted in a program that was responsive to the government's needs and well aligned with other donor programs.
3. **A Well-Articulated ISN.** A number of speakers commended the ISN, describing it as well articulated and designed to lay the foundations for a more ambitious long-term engagement. They expressed support for its three pillars: reduce vulnerabilities and support livelihoods, strengthen governance and accountability, and address critical infrastructure needs.
4. **Reengagement.** A number of speakers welcomed the Bank's reengagement in Belize. In view of the country's substantial public debt burden and vulnerability to natural disasters, speakers found the cautious and selective strategy for reengagement characterized by a moderate lending envelope with an emphasis on analytical work to be appropriate.
5. **Risks.** A number of speakers concurred with the staff's assessment of the risks and welcomed the mitigation measures proposed. Some speakers, noting Belize's vulnerability to climate change, natural disasters, terms of trade shocks and its unsustainable debt, urged the government to consolidate public sector finances to mitigate risk, reduce debt, and restore fiscal sustainability.
6. **Macroeconomic and Fiscal Issues.** Some speakers expressed concern about the longer-term outlook in Belize. One of them said that the modest investment loan would be more appropriate in normal times than in the exceptional circumstances that the country currently faced. He asked how Belize could address the fiscal tensions between the short-term needs and medium-term recommendations made in the paper. Moreover, if conditions were to worsen, he asked what other sources of financing were available to Belize.
7. Staff said that the economy had grown by 2.5 percent in 2008, despite extensive flood damage from two tropical storms. Floods had affected about one-sixth of Belize's population, with economic losses estimated at 4.8 percent of GDP. Growth for 2009 was projected at 2 percent, of which three-quarters was expected from the oil sector. Belize's other commodity exports would be affected by lower international prices, and tourist arrivals were expected to decline.
8. **Growth.** A speaker noted that the economy remained dominated by a few primary products. He welcomed the highlighting of trade and infrastructure bottlenecks that would require close attention in any attempt to diversify products and tap into broader regional markets. He noted the progress in switching to more growth-enhancing commodities and the rapid rise in tourism.
9. **National Development Plan.** A speaker noted that Belize had not yet completed a formal development plan on which the ISN could be based and appreciated the consultations with the new government and other donors. She felt that the two-year interim period should allow the authorities to finalize a formal development plan around which donor support could be based most effectively.
10. **Financial Sector Issues.** A speaker urged caution with regard to the authorities' plans to revive the Development Financial Corporation (DFC). Given the ongoing fiscal constraints and the risk of financial market distortions, she questioned whether reviving the development bank was the most effective use of

public resources and the best way to address access to finance in rural and small, medium, and microenterprise (MSME) sectors.

11. Staff said that the Bank's program was not financially supporting the revival of the DFC but would address access to finance in its AAA. The government, which wanted to revive a development bank to address market failures in housing and MSME finance, had assured development partners that the institution would be subject to the highest standards of transparency and accountability. The government had passed legislation governing the reconstituted institution which established a private sector-led board and Central Bank oversight.

12. **The Role of IFC.** A speaker appreciated the information on IFC and hoped to see more in-depth information on IFC's strategy in the next CAS. Another speaker welcomed IFC's decision to focus on developing MSME banking and trade finance as well as improving the business environment. He also hoped that IFC would consider growth- and income-generating projects involving tourism and natural resource management.

13. **Social Sector Issues.** Some speakers welcomed the planned analytical work in support of the conditional cash transfer program. Another speaker noted that Belize lagged behind in tackling extreme poverty and HIV/AIDS and stressed the need for the Bank to help the country advance toward achievement of the Millennium Development Goals. A different speaker, noting that the document touched on many areas with an inherent gender dimension, asked why OP 4.20 on Gender and Development had not been applied. He urged management to include gender analysis in the formulation of its strategy and to ensure that OP 4.20 would be applied in the future CAS.

14. Staff said that at the time that the ISN was prepared, the data were not available. A Poverty Assessment was being concluded and a Household Expenditure Survey was recently launched. The results of these two studies should yield sufficient information on the gender dimensions of development in Belize to inform the CAS.

15. **Governance.** A number of speakers welcomed the government's vision of restoring good governance and fiscal prudence. They particularly welcomed the ISN's focus on governance, which would provide the necessary technical support to address these challenges. Another speaker asked if a territorial dispute with a neighboring country might entail a serious risk to economic development.

16. Staff said that during the early stages of preparation of the Municipal Development Project, LEGLA noted that the project might trigger OP/BP 7.60, Projects in Disputed Areas. The Bank team had worked closely with LEGLA and concluded that the issue would not affect the Bank's ability to deliver the operation nor pose a risk to further economic development in Belize.

17. **Environmental Issues/Natural Disasters.** A speaker welcomed the authorities' and their partners' early actions to reduce the impact of natural disasters and climate change. Given Belize's exposure to natural disasters, some speakers encouraged staff to help the country develop a comprehensive disaster risk management program and to incorporate disaster risk management and adequate safeguards into sector planning and project design. One of them said that Belize could benefit from the Bank's knowledge in this area.

18. **Assistance Program.** A number of speakers expressed support for the Bank's assistance program. One of them especially welcomed the Bank's financial support to the infrastructure sector, particularly the focus on municipal infrastructure and the telecommunications sectors.

19. **Donor Coordination.** A number of speakers welcomed the attention paid to donor coordination during the preparation of the ISN and encouraged staff to maintain close collaboration with external partners in the upcoming CAS discussions. Some speakers said that since there was no formal donor coordination mechanism in Belize, the Bank should play a catalytic role in fostering the Paris Declaration principles in Belize.

20. **Chairman's Concluding Remarks.** The Chairman summarized the meeting. The Chairman's Concluding Remarks were subsequently circulated as R2009-0029/2, dated March 19, 2009.