RATING AGENCY SERVICES FOR DESIGNATING A PRIVATE CREDIT RATING TO THE DEVELOPMENT FINANCE CORPORATION OF BELIZE

TERMS OF REFERENCE

1. BACKGROUND

1.01 The country of Belize is highly exposed and vulnerable to climate change and natural hazards. Among small states, Belize ranks 3rd at risk for natural disasters, and 5th at risk from climate change. It already faces hurricanes, flooding, sea-level rise, coastal erosion, coral bleaching, and droughts, with impacts likely to intensify based on climate change projections. Belize's annual average loss from wind-related events and floods averages just under USD123 million (mn), or 7 percent (%) of Gross Domestic Product (International Monetary Fund [IMF], 2018). Of that USD123 mn, roughly USD88 mn is the estimated replacement value associated with direct, physical damage. Most of the northern half and much of the southern third of the country, plus the entire coastal area and all the islands, are flat and low-lying. Large sections of the coastline have an elevation of less than one meters to a distance of several kilometers inland. The primary impact of climate change is expected to be large-scale inundation from sea-level rise and from more severe storm surges. Belize's major infrastructure such as public buildings, health, commercial, and transportation facilities are located on or near the coast which makes them extremely susceptible to sea-level rise.

1.02 Belize's national climate change policy and planning documents highlight the country's commitment to making its territory and people resilient to climate variability and change. The country also remains keen on contributing to global efforts to keep mean temperature increase below two Degrees Celsius. The Nationally Determined Contribution (NDC) highlights Belize's efforts to source 75% of its energy needs from renewable energy by 2030. This is mainly to be achieved by implementing hydropower, solar, wind, and biomass energy resources. In addition, the country intends to reduce the use of fossil fuels by 15% by improving efficiency in the transport sector. The NDC also emphasizes the country's intention to improve its carbon capture and storage capacities via improved and sustainable forest management, reduction of fuel wood consumption by 27% to 66% and protection and restoration of mangrove forests. Targets set out in the NDC are complemented by the government's National Climate Change Policy, Strategy and Action Plan (NCCPSAP), the National Adaptation Strategy (Agriculture sector) and the Low Carbon Development Roadmap (LCDR). These policy instruments are supported by the Growth and Sustainable Development Strategy (GSDS) which is Belize's medium-term development plan. The GSDS recognizes the importance of achieving sustainable development in a changing climate and is aligned with the NDC, NCCPSAP and LCDR.

1.03 In an effort to ensure Belize's ambitious climate change agenda, the country is promoting the engagement of the private sector in climate finance, in part, through an ongoing CDB supported Readiness project "Strengthening Belize Private Sector Access to Climate Finance (BZE-RS-004)". Additional private engagement will likely lead to an increase in requests for GCF financial support within Belize, especially tailored to micro, small, and medium sized enterprises (MSMEs). One of the keys to mobilize climate funding at scale, is to leverage the unique position of national development and financial institutions (DFIs) that sit at the nexus of entrepreneurship and capital for the creation of economic and social goods and services. Building DFIs capacity to access and deploy climate funds from various sources, in particular the Green Climate Fund (GCF) can facilitate climate smart investments and delivery of gender-responsive climate finance directly into local economies.

1.04 To address the scaling up of climate funding in the country, Belize's National Designated Authority (NDA), Ministry of Finance, Economic Development & Investment, has nominated the Development Finance Corporation (DFC) for GCF accreditation as a Direct Access Entity (DAE). The Development

Finance Corporation is Belize´s development bank. Its purpose is to expand and strengthen the economy of the country by providing funding on an economically sustainable and environmentally acceptable basis, for individuals or groups of individuals, seeking financing for specifically approved purposes, on reasonable terms and conditions. The DFC is wholly owned by the Government of Belize under the responsibility of the Ministry of Finance, Economic Development, and Investment.

1.05 The DFC has been the beneficiary of several GCF readiness grants related to accreditation, notably in 2018, through the Caribbean Community Climate Change Centre (CCCCC), in "Building Capacity for Direct Access to Climate Finance (BLZ-RS-002)", and in 2019, by a GCF funded "Gap Assessment" undertaken by PricewaterhouseCoopers (PwC). The latter provided the groundwork for a third readiness package for the DFC, with support from the CDB "Belize Development Finance Corporation Capacity Strengthening for Accreditation to the Green Climate Fund (BLZ-RS-005) whose aim is to close the accreditation gaps identified by PwC.

1.06 The accreditation gaps identified by PwC and outlined in the activities of BLZ-RS-005 include improving items related to the GCF's basic fiduciary standards and environmental and social safeguards for accreditation. The GCF's accreditation framework require entities to demonstrate compliance with standards through institutional capacities, policies, and track record, according to the type of accreditation they are seeking. DFC is seeking to become accredited to on-lend/blend projects in medium size, with and environmental and social risk of category B. In addition to those accreditation gaps identified, the DFC also aims to attain a Private Regional-Scale Corporate Credit Rating for the Corporation, which is the basis for this assignment.

2. OBJECTIVE

2.01 The overall objective of the assignment is to analyse and review DFC's operations and assign the Corporation a Private Regional-Scale Corporate Credit Rating (Shadow Rating). Using its established rating methodology, the selected firm will perform its due diligence to the Corporation through the revision of internal policies, operative and regulatory framework, market segment, and other inputs required to affirm a fair and just evaluation of DFC's capacity to meet outstanding and future obligations.

3. SCOPE OF SERVICE

3.01 The assignment will include the following tasks and activities:

(a) Prepare a document or presentation that outlines the methodology to be used to determining proper rating scores.

(b) Review relevant documents related to the governance and financial administration of the DFC

(c) Review the PwC Gap Assessment report, and documents arising out of the ongoing GCF Readiness Technical Assistance project to support DFC's GFC accreditation application inclusive of all revised policies and procedures manuals.

(d) Provide a scale of the ratings to be used, and a comparison of similar issuers in the ratings category.

(e) Analyse core parameters of DFC, inclusive of asset quality, earnings, resource profile, capitalization, market position, liquidity and management profile via the revision of pertinent financial reports, key transactions, historical performance of the corporation and other information, including those that may be deemed confidential.

(f) Conduct an assessment of DFC's:

i. Business Profile
ii. Governance Structure and operating policies and procedures
iii. Operating Segment
iv. Business and Enterprise Risk
v. Historical Performance Analysis
vi. Scale and margins compared to other similar organizations
vii. Revenue and margin drives
viii. Cash Flow generation capability
ix. Balance Sheet Analysis
x. Financial Ratios
xi. Other considerations that allow for a fair evaluation.

(g) Through its internal review instances, assign a credit rating, and provide a report that outlines, in detail, the forward-looking perspective, on the capacity of the DFC to meet its current and future obligations.

3.02 Special Consideration/Note:

The assignment must take into consideration the policy adjustment that the DFC is currently undertaking to address GCF Accreditation Gaps, which may impact the Rating Assessment. These policy and procedural adjustments extend to the governance and financial management as well as the environmental and social safeguard procedures of the Corporation.

4. DELIVERABLES

4.01 The assignment will result in the following:

(a) Inception Report with detailed work plan.

(b) A draft Ratings Report that details DFC's Private Corporate Rating

(c) A final Ratings Report that details DFC's Private Corporate Rating and the forward-looking perspective, on the capacity of DFC to meet is current and future obligations.

5. QUALIFICATIONS AND EXPERIENCE

5.01 Interested Firms will meet the following qualifications:

(a) Be a recognized provider of rating services with a solid track record of rating assessments with reputable issuers, preferably Development Finance Institutions (DFIs) and sovereigns.

(b) Have an internationally recognized credit ratings scale, that allows potential investors and stakeholders to gauge the credit risk of the entity's obligations.

(c) Have internal collegiate instance or body that will independently review the ratings assessment and provide an approval of the assigned rating.

(d) Have a defined and objective assessment methodology that demonstrates independence of opinion and technical expertise.

6. DURATION

6.01 The assignment is to be implemented over a period of two (2) months.