

Compete Caribbean Private Sector Assessment Report (PSAR) for Belize

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This Private Sector Assessment Report for Belize (Belize-PSAR) presents an overall assessment of private sector development (PSD) and recommendations for facilitating and accelerating private investment and growth. This report includes a summary of the main characteristics of and issues facing the economy—domestic and international—and the productive structure of Belize as these relate to PSD. It assesses the state of the private sector and overall business environment as well as identifies emerging and fast growing sectors and suggests priority areas for concerted action. The paper concludes by suggesting recommendations for interventions, monitoring and evaluating PSD initiatives, and filling data gaps. The report includes two appendices with details on consultations and references.

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Table of Contents

List of Acronyms

| | |
|--|----|
| Executive Summary | 7 |
| Introduction..... | 12 |
| Chapter 1. PSD in Belize and the Structure of the Economy | 13 |
| 1.A PSD and Its Goals in Belize..... | 13 |
| 1.B External Support for PSD..... | 17 |
| 1.C An Overview of the Belizean Economy..... | 20 |
| 1.C.1. Domestic..... | 20 |
| 1.C.2. International Economy..... | 30 |
| a. Trade..... | 30 |
| b. FDI..... | 34 |
| 1.C.3 Productive Structure..... | 37 |
| a. Industry and Agriculture..... | 37 |
| b. Services..... | 42 |
| Chapter 2. The State of the Private Sector..... | 45 |
| 2.A.1 Assessing the Size of the Private Sector..... | 45 |
| 2.A.2 Private Enterprises in Belize and the Role of MSMEs..... | 48 |
| 2.B. The Institutional Framework Relevant to PSD..... | 52 |
| 2.B.1. Public Sector Institutions and PSD..... | 53 |
| 2.B.2. Business Supportive Institutions and PSD | 56 |
| 2.B.3. The Business Environment..... | 61 |
| 2.C Large and Fast Growing Sectors..... | 65 |
| 2.C.1 Tourism..... | 66 |
| 2.C.2. ICT-BPOs..... | 69 |
| 2.C.3. Financial Services..... | 72 |
| 2.C.4. Agro Processing..... | 74 |
| 2.D. Issues for Private Sector Development..... | 75 |
| 2.D.1. Access to Finance..... | 76 |
| 2.D.2. Corporate Taxation..... | 81 |
| 2.D.4. Technology and Innovation..... | 82 |
| 2.D.5. Trade and FDI Policies..... | 82 |
| 2.D.6. Labour Regulation..... | 85 |
| 2.D.7 Infrastructure, Communications and Energy..... | 86 |
| 2.D.8 Environment..... | 87 |
| 2.D.9 Gender..... | 88 |
| 2.D.10 Education and Training..... | 91 |
| Chapter 3: Selecting and Prioritising Issues..... | 94 |
| 3.A.1 Prioritising PSD Issues--A Durable Framework for PSD..... | 95 |
| 3.A.2. Prioritising PSD Issues—Filling in Information and Data Gaps..... | 96 |
| 3.B. Action Plan, Follow Up and Monitoring..... | 98 |
| Annex I. Schedule of Consultations | |
| Annex II. References | |
| List of Tables | |

- Table 1. Belize. Priorities for PSD and PSD Coordination
- Table 2. Belize: Priorities for Improving the Business Climate
- Table 3. Belize: Priorities for Facilitating the Growth of Emerging Sectors
- Table 4. GDP Growth 1981-2012
- Table 5. Recent Natural Disasters: Impact on Agricultural Sector
- Table 6. Tourism: Contributions to GDP and Employment, 2011
- Table 7. Government Compensation of Employees
- Table 8. Exports of Goods and Services, Belize and Peers
- Table 9. Export Growth and Volatility, 1985-2011.
- Table 10. Ratings and Assessment
- Table 11. FDI Inflows by Sector, 2001-2011
- Table 12. Top Merchandise Exports 1995 and 2010
- Table 13. Belize “Low Hanging Fruit”
- Table 14. Public Sector Expenditures, Belize and Peers, 2011
- Table 15. Percentage of Firms Identifying Access to Finance as a Major Constraint
- Table 16. Credit Constrained Status of Firms, by Country, 2010
- Table 17. Quality of Infrastructure in Belize
- Table 18. Female Participation in Firms, 2010
- Table 19. Priority PSD Issues— Policy Interventions to Strengthen PSD Dialogue and Coordination
- Table 20. Priority PSD Issues—Improving the Business Climate
- Table 21. Priority PSD Issues —Facilitating the Growth of Fast Growing and Emerging Sectors
- Table 22. PSAR Monitoring Indicators

List of Figures

- Figure 1: PSAR Classification of PSD Related Financing
- Figure 2A: Real GDP Growth
- Figure 2B: Real GDP Growth, 2012
- Figure 3. Agricultural, Tourism and Oil Exports
- Figure 4. Sectoral Composition of GDP
- Figure 5. Expenditure Composition of GDP 1980-2010
- Figure 6. Unemployment, 1990-2011
- Figure 7. Unemployment Rates, 2012
- Figure 8. Employment by Main Occupation, 2012
- Figure 9A. Fiscal and Current Account Position
- Figure 9B. Fiscal Deficits in Selected Peer Countries
- Figure 10. Tax Revenues in the Caribbean, 2011
- Figure 11. Debt Profile
- Figure 12. External Debt Burden in the Caribbean, 2010
- Figure 13A. Treemap of Products Exported from Belize to World 2009
- Figure 13B. Treemap of Products Exported from Belize to World in 1995
- Figure 14A. External Accounts, 1984-2011
- Figure 14B. Selected Current Account Balances, 2001-2011
- Figure 15. Relative Inflation Performance

Figure 16. Private Capital Formation and FDI, 1985-2008
 Figure 17. FDI Flows to Selected Caribbean and Central American Peers
 Figure 18. Belize: Potential Output
 Figure 19. Product Space Map for Belize, 2010 and 1995
 Figure 20. Diversity and Average Ubiquity for the Caribbean
 Figure 21. Trade in Services
 Figure 22. Employment in Services, 2005 & 2010
 Figure 23. Female Employment in Services, 2005
 Figure 24. Composition of Services Exports
 Figure 25. The Private Sector, Share in Total Credit and Total Consumption
 Figure 26. Private Sector Employment
 Figure 27. Employment by Sector, 2004-2005
 Figure 28. Belize's Rank on the Global Competitiveness Index
 Figure 29. Belize: Ease of Doing Business Rank in 2013
 Figure 30. Ease of Doing Business, Belize and Peers
 Figure 31. Starting a Business, Belize and Peers
 Figure 32. Global BPO Market Drivers
 Figure 33. Drivers and Challenges of Expanding the BPO Sector
 Figure 34. Outsourcing: Regional Comparisons
 Figure 35. Financial Services, 2012
 Figure 36. Financial Market Development, 2011-12
 Figure 37. Share of Financial System Assets, 2011
 Figure 38. Interest Rate Spreads, Belize and Peers, 2012
 Figure 39. Tax Payments, Belize and Peers, 2012
 Figure 40. Technological Readiness, Belize and Peers, 2012
 Figure 41. Innovation, Belize and Peers, 2012
 Figure 42. Average Tariff Rates, Belize and Peers, 2012
 Figure 43. Business Impact of Rules on FDI, Belize and Peers, 2012
 Figure 44. Labour Market Efficiency, Belize and Peers, 2012
 Figure 45. Infrastructure, Belize and Peers, 2012
 Figure 46. Environment Performance Rank, Belize and Peers, 2010
 Figure 47. Global Gender Gap, 2011-2012, Belize and Peers
 Figure 48. Decomposition of Global Gender, 2011-2012, Belize and Peers
 Figure 49. Gender Gap Inequality Index
 Figure 50. Quality of Education System, Belize and Peers
 Figure 51. Education Survival Rates, Belize and Caribbean Peers
 Figure 51. Completion Rates in Secondary Education, Belize and Caribbean Peers
 Figure 53. Belize: Suggested framework to achieve reforms

Boxes

Box 1. PSD in Costa Rica

Box 2. Registration and Other Procedures to Start a Business in Belize

Box 3. An Agro-Processing Initiative in Belize

LIST OF ABBREVIATIONS AND ACRONYMS

ACP African, Caribbean and Pacific
ADE Agency for the Development of Enterprise
A & B Antigua and Barbuda
BAHA Belize Agricultural Health Authority
BAS Belize Agro-Productive Sector Group
BBB Belize Business Bureau
BBS Belize Bureau of Standards
BBC Belize City Council
BCCI Belize Chamber of Commerce and Industry
BHA Belize Hotel Association
BIL Belize Infrastructure Company Ltd.
BMDC Belize Marketing and Development Corporation
BCSP Belize Coalition of Service Providers
BCUL Belize Credit Union League
BELTRAIDE Belize Trade and Investment Development Service
BGA Banana Growers Association
BMA Border Management Authority
BMDC Belize Marketing and Development Corporation
BOD Board of Directors
BOPA Belize Offshore Practitioners Association
BPO Business Processing Outsourcing (BPO)
BRDP Belize Rural Development Programme
BSI Belize Sugar Industry Ltd.
BSO Business Support Organization
BTB Belize Tourist Board
BTIA Belize Tourism Industry Association
BZD Belize Dollars
CARICOM Caribbean Community
CBB Central Bank of Belize
CDB Caribbean Development Bank
CEO Chief Executive Officer
CINDE Costa Rican Coalition for Development Initiatives
CGA Citrus Growers Association
CPA Country Poverty Assessment
CFZ Corozal Free Zone
CPBL Citrus Products of Belize Ltd
CSME CARICOM Single Market and Economy
DFC Development Finance Corporation
DFQF Duty-Free Quota-Free
DMX Donor Coordination Matrix
DOT Directorate of Trade
D.R. Dominican Republic
EDC Economic Development Council
EPA Economic Partnership Agreement
EPZ Export Processing Zone
EU European Union

FDI Foreign Direct Investment
FY Fiscal Year
GCB Gaming Control Board
GCI Global Competitiveness Index
GCR Gross Completion Rate
GDP Gross Domestic Product
GNI Gross National Income
GOB Government of Belize
GST General Sales Tax
HDI Human Development Index
IBC International Business Companies
ICT Information and Communications Technology
IET International Education Tourism
IDAB or IDB Inter (American) Development Bank
IFAD International Fund for Agricultural Development
IFS International Financial Services
IIC Inter-American Investment Corporation
ILO International Labour Organization
IMF International Monetary Fund
IPA Investment Promotion Agency
LAC Latin America and the Caribbean
LDC Less Developed Country
LMP Land Management Programme
MIF Multilateral Investment Fund
MoNRA Ministry of Natural Resources and Agriculture
MoFED Ministry of Finance and Economic Development
MoTC Ministry of Trade and Culture
MoWT Ministry of Works and Transport
MoEPU Ministry of Energy, Science & Technology and Public Utilities
MSEs Micro and Small Enterprises
MSMEs Micro, Small and Medium Enterprises
MTDS Medium Term Development Strategy (Belize)
MoTI Ministry of Trade, Investment Promotion, Private Sector Development and Consumer Protection
MoL Ministry of Labour, Local Government, Rural Development, NEMO and Immigration
NEMO National Emergency Management Organization
NES National Export Strategy
NICH National Institute of Culture
NPES National Poverty Elimination Strategy
NSTMP National Sustainable Tourism Master Plan
NTNC National Trade Negotiating Commission
OAS Organization of American States
ODCs Other Duties and Charges
OECS Organization of Eastern Caribbean States
OTN Office of Trade Negotiations
PBL Port of Belize Ltd

PPSD Public-Private Sector Dialogue
PSAR Private Sector Assessment Report
PSD Belize Private Sector Development
PSL Private Sector Liaison
PUC Public Utilities Commission
R&D Research and Development
SBDC Small Business Development Centre
SIB Statistical Institute of Belize
S&P Standard & Poors'
SBA Small Business Association
SIB, Statistical Institute of Belize
SIRDI Sugar Industry Research and Development Institute
SME Small and medium enterprise
SSB Social Security Board
St. Vincent St. Vincent and the Grenadines
STP Sustainable Tourism Programme
T&T Trinidad and Tobago
TSDI Tropical Studies and Development Institute
TTT Trade Technical Team
TVET Technical and Vocation Education Track
UB University of Belize
UN United Nations
UNCTAD United Nations Conference for Trade and Development
UDP United Democratic Party
UNDP United Nations Development Programme
US United States/ of America
VoIP Voice over Internet Protocol
WB World Bank
WBES World Bank Enterprise Survey
WEF World Economic Forum
WTO World Trade Organization

EXECUTIVE SUMMARY

This Private Sector Assessment Report (PSAR) for Belize presents an overall assessment of private sector development (PSD) and recommendations for facilitating and accelerating private investment and growth. This is a draft report, and the preliminary recommendations presented will be discussed with stakeholders in Belize City in June 2013. Priorities, as defined by stakeholders, as well as an action plan for the execution of short-term initiatives, will be incorporated into the final report along with a plan to prioritize filling in information gaps.

It is important to clarify that important PSD initiatives are currently supported by stakeholders in Belize. The objective of this report is to respectfully contribute to the process to accelerate growth and development in Belize, not to compete with any existing PSD effort. The intention of this report is to provide stakeholders with a complementary and comprehensive review of programs, alternatives, and options, including a preliminary proposal for priority interventions and an action plan. If this report is to succeed in re energizing PSD support in Belize, it is because stakeholders take ownership of the action plan and agree on the way forward. Therefore, this first draft is intended to energize the process and facilitate dialogue with PSD stakeholders, and as a result to agree on a common approach to stimulate growth. Hopefully it will also secure interest and funding from the donor community for some of the proposals that would result from the process.

Private sector development encompasses tapping private sector initiative in the context of a society's articulated strategy and goals, as embodied in the discretion given to government by the society at large through the electoral process. Private sector development is also critical for advancing social agendas, in particular gaining ground on poverty reduction and "pro poor" policies—a main goal articulated by current policymakers in Belize. At this juncture, PSD and elements supportive of a broad and systematic public-private dialogue are in their infancy in Belize and represent a relatively new feature of Belize's current economic and political landscape. Yet, there is considerable potential for Belize—public and private sectors—to benefit from PSD including by building upon the experiences of other natural resource based economies. PSD is an important and untapped channel for Belize in meeting the challenges ahead. The convening of the first Business Forum in late 2011 and establishment of the Economic Development Council (EDC) and subsequent appointment of a Director of Public-Private Sector Dialogue in the Office of the Prime Minister in May 2012 to "establish a medium for [public-private] dialogue"¹ are important steps in formalizing dialogue with the private sector.

The common thread of this report and its recommendations, and the overarching PSD goal in Belize is to establish a durable mechanism and framework independent of political cycles for public-private dialogue and PSD. The intention is to open space for and to facilitate PSD by identifying an agreed vision and actions for PSD and raising the profile and status of the private sector and entrepreneurial activities in Belize. The private sector in Belize is large by Caribbean regional standards using an expenditure metric. Belize's private sector represented more than 92% of employment in 2000-2011, exceeded two-thirds of credit and four-fifths of consumption on average in 2004-2011. Thus the private sector—its business support organizations including BCCI, BCSP, BOPA, BBB, BTIA and BHA—must necessarily take the lead in generating new

¹ See *Achieving Debt Sustainability, Stimulating Economic Expansion*, Budget Presentation for Fiscal Year 2013/2014, page 33.

and innovative approaches and coalitions in support of emerging and fast growing sectors. The initiative “Open for Business” lead by the Belize City Council is illustrative of such an approach.

Another prerequisite for PSD falling into the domain mainly of the public sector in Belize is to improve the overall business climate. This would help to create an enabling environment for expansion into value-added activities in emerging and fast growing sectors such as ICT/BPO, Agro processing and education- and medical-related tourism. Based on internationally accepted measures of the business climate, Belize ranks poorly, well below Caribbean peers and marginally better than Central American peers. In this regard, in disaggregating the overall indicator of the business climate, Belize ranks lowest in the categories of starting a business, innovation and enforcing contracts. Improving access to finance and the skill level of the labour force through innovative strategies and actions are also priorities.

Belize’s strong democratic traditions and institutions enshrined in the law is a strong asset for PSD. However, there is a widespread perception—including among public and private sector stakeholders alike—that lack of implementation is a critical issue as is establishing a level playing field for businesses in areas such as taxation, licensing and other administrative requirements and incentives. Demonstrating respect for rule of law and the enforcement of contracts will be important for the continued attraction of local and foreign direct investment. Private sector initiatives also can contribute to an improved environment by conducting business in line with agreed international standards with respect to transparency and disclosure.

Policies for PSD will need to expand to support micro, small and medium sized enterprises (MSMEs) in the private sector given their importance to the economy. In this regard, an actual count of the number of businesses in Belize and their financial disposition is thwarted by the lack of information, in part due to a large informal sector as well as due to no legal requirement for financial disclosure in Belize. However, most assessments point to a small number of large and medium sized businesses and a very large representation of micro, small and medium (MSM)–sized enterprises in the private sector using several definitions of the size of business. MSMEs generate over 70% of private sector employment and incomes and contribute significantly to GDP. In terms of output, it is estimated that MSMEs account for over 70% of main export crops and an even higher percentage of domestic food crops

Galvanizing and harnessing PSD is critical for Belize’s growth and for the well being of its citizens. Belize faces lower growth with preservation of the status quo and without concerted action on PSD. Government budget resources remain stretched even in the face of a successful external debt restructuring which provides some immediate fiscal space but leaves a heavy debt burden for future generations without sustained economic growth. Expenditure on social services, in particular education, claimed about 30% of government recurrent expenditure (mainly for compensation) in 2000-2011 with high opportunity cost in terms of unmet financial requirements for improving Belize’s poor infrastructure and combatting Belize’s alarming increase in crime. Poverty reduction goals will also be compromised without a vibrant and growing private sector’s contribution to growth and development.

The priorities for PSD are clustered around the following issues: (1) Articulating a vision and a durable framework for PSD; (2) improving the business climate for PSD; (3) facilitating the growth of fast and emerging sectors.

Table 1. Belize: Priorities for PSD and PSD Coordination

| Issue | Responsibility for leadership | Technical difficulties | Political friction |
|---|---|---|--------------------|
| PSD is in its infancy. Belize lacks an agreed broad vision for PSD as well as comprehensive PSD approach and has a weak track record of public-private partnership. | Economic Development Council (EDC), Business Forum and Director, Public-Private Sector Dialogue (PPSD) | Medium—requires building institutional capacity including the collection and analysis of primary data | Low |
| Public servants representing government in PSD institutions, especially the Business Forum, need to become active champions for PSD reform in their respective Ministries | Director, PPSD and Ministry of Trade/BELTRAIDE | None | Medium |
| Agree on and coordinate reforms necessary for PSD. The EDC is well positioned and should be strengthened to lead this effort including by representation of the MSME sector. The most relevant tasks in the short-run for the institution are: (i) ensure its financial sustainability; and (ii) define a few priority activities for PSD. | EDC in Collaboration with Business Forum | None | Medium |
| PSD projects are not systematically inventoried, monitored or coordinated. There needs to be a focal point for this so that there is current information updated periodically and made available to all stakeholders and the donor community. This will allow for public-private coordination for jointly financed projects. The office of the Public-Private Sector Dialogue should be strengthened and supported to lead this effort. | Director, PPSD, Ministry of Trade, Investment Promotion, Private Sector Development and Consumer Protection (Ministry of Trade), Ministry of Finance and Economic Development (MoFED) | None | Potentially High |
| More private, less public led initiatives. PSD initiatives should be sponsored and led by private sector stakeholders and less by public sector actors. The initiatives of the BCCI and BBB with the Belize City Council are models of private-public partnerships to attract investment and generate employment. | Business Forum with BCCI, BCSP, BOPA, BBB, BTIA and BHA | None | Potentially High |

Table 2. Belize: Priorities for Improving the Business Climate

| Issue | Responsibility for | Technical | Political |
|-------|--------------------|-----------|-----------|
|-------|--------------------|-----------|-----------|

| | Leadership | Difficulties | Friction |
|---|---|---------------|----------|
| Improve macroeconomic stability by better fiscal and debt management. | Ministry of Finance and Economic Development (MoFED) | Medium | Medium |
| Low financial intermediation and access to financial services. High cost and limited access to credit. The banking system is the major source of financial intermediation. The lack of credit bureaus and heavy reliance on property as collateral for loans is an impediment to PSD. | Central Bank of Belize, EDC, MoFED, BCCI and BELTRAIDE representing MSMEs | Medium | High |
| Inadequate labour force skills: current supply of skills does not match the current demand in the economy or future demands driven by emerging and fast growing sectors | Ministry of Labour with Private sector institutions: BCCI, BCSP, BOPA, BHA, BTIA and BBB with Galen and University of Belize, BELTRAIDE | Medium | Low |
| Inefficient public services delivery | Ministry of Public Service, Director of Public-Private Sector Dialogue (PPSD) and EDC. | High | High |
| Domestic market inefficiency: Tax system is burdensome and needs to be reformed. This process is underway and needs to be accelerated. Other main bottle necks include starting a business and enforcement of contracts | MoFED, Ministry of Trade (Investment Policy Unit/BELTRAIDE and EDC | <i>Medium</i> | High |
| Improve property rights and infrastructure—property registration, enforcing contracts and regulatory changes in agencies which slow down investment and changes in legislation. | Ministry of Works, EDC, Director, PPSD | High | Medium |

Table 3. Belize: Priorities for Facilitating the Growth of Emerging Sectors

| Issue | Responsibility for | Technical | Political |
|-------|--------------------|-----------|-----------|
|-------|--------------------|-----------|-----------|

| | leadership | difficulties | Friction |
|---|--|---------------------|-----------------|
| The lack of a policy on or institutional framework that supports MSMEs. Policy for MSEs should be advanced and BELTRAIDE strengthened to implement. | Ministry of Trade and BELTRAIDE | <i>Low</i> | Low |
| Merchandise exports are concentrated toward low value added and primary products. NES has to be agreed and implemented. | BBB, Belize City Council, Ministry of Trade and Investment (MoTI), Ministry of Agriculture and Natural Resources (MoA) | High | Medium |
| Diversified of services exports needs to be encouraged. Services exports are concentrated in the tourism sector with visitor arrivals mainly from North America. Tourism services exports need to be further diversified into other areas such as IET and medical tourism as well as into other services and value-added merchandise exports. In parallel, export bias embodied in fiscal incentives and incentives for export processing zones (EPZ) and free zones to be brought in line with WTO rules. | Private sector support organizations: BCSP, BOPA, BCCI, BHA, BTIA and BBB with MoTI/BELTRAIDE, Ministry of Tourism/BTB and Ministry of Agriculture (MoA) | High | Medium |
| Improve Innovation: Develop a policy and support actions to encourage research and development to facilitate innovation and future competitiveness including via collaboration between main industries (private and public) and universities | Ministry of Energy and Technology, Ministry of Trade and Investment, Galen University, and University of Belize | High | Medium |

Data and gaps in information: Belize would benefit from filling in the following information gaps:

- A mapping of private sector activities by sector
- A mapping of private sector activities by size of business
- A mapping of financial sector products available to the private sector—such as banking services on factoring, secured transactions, discount of letters, long-term lending terms and options.
- A mapping of trade-related information relevant to companies in selected sectors for selected markets—such as food safety concerns, standards and certification, trading mechanisms and timing, costs
- A complete description and analysis of labour markets
- A complete description and analysis of registries, real estate and movable property

- A complete mapping of licensing requirements by sector.

INTRODUCTION

This Private Sector Assessment Report for Belize (Belize PSAR) presents an overall assessment of private sector development (PSD) and recommendations for facilitating and accelerating private economic investment and growth.² Following the suggestion of the guidelines for the preparation of Donor Coordination Matrices (DMX) for CARIFORUM countries, the Belize PSAR includes as an annex the Belize Donor Matrix (Belize DMX).

This introduction presents a brief description of the purpose of the PSAR and DMX, and explains their purpose and how they complement each other. It is important to note that this report would need to be updated over time as the overall economic conditions change, new PSD programs and projects are implemented, new actors enter or leave the market, and data gaps are filled in with primary data and analysis. It is recommended that this report is updated every two years, or less if conditions change significantly.

According to the PSAR guidelines the PSAR is: *“a report meant to provide a comprehensive framework to identify market failures concerning the development of the private sector and prioritize them in terms of their need for an urgent solution. These outcomes are the result of a process that involves the use of descriptive and analytical tools to assess the state of the private sector and the economy as a whole, as well as consulting with firms in strategic sectors of the economy to prioritize issues.*

The PSAR can be decomposed in two parts: first, it compiles and analyses information from different sources in order to provide a snapshot of the state of the private sector in the country, and second, it brings the information to relevant stakeholders – such as firms in the economy – to establish priorities on all the identified issues affecting further growth in the private sector.”³

According to the DMX guidelines the DMX is: *“is a dynamic tool designed to improve coordination among government, stakeholders and the donor community of PSD programs and projects in CARIFORUM countries. The DMX will identify PSD programs and projects, including among other business climate reforms, macroeconomic support to governments, direct support to the private sector, women in business initiatives and related gender mainstreaming efforts. As such it is a tool that will be used to identify, assess, and monitor PSD programs and projects in individual CARIFORUM countries as well as sub regional programs and projects.*

2 This report is funded by Compete Caribbean, which is a program created to facilitate Private Sector Development (PSD) in CARIFORUM countries and sponsored by DFID, CIDA and the IDB.

3 Guide for Private Sector Assessment Report (PSAR) in the Caribbean Countries. Version 1.2 Inter-American Development Bank, 2011. The guide was created for Compete Caribbean by Dany Bahar.

The DMX is also meant to be used for the development of strategic partnerships, to identify gaps and omissions, and to maximize the impact of projects through improved donor coordination.”⁴

The DMX guidelines note that: “*The DMX and PSAR complement each other, with the DMX providing information about past and present programs and projects in each country; and the PSAR identifying priority areas for Private Sector Development (PSD) interventions at the country or sub-regional level. The contrast between what is currently being supported by the donor community identified in the DMX, and what should be supported identified in the PSAR, is an important input for the definition of PSD programs and projects, and for improved coordination between government, stakeholders and the donor community.*”

It is expected that donors, working together, would use this report to improve coordination and identification of larger, more comprehensive private sector projects and programs to accelerate growth across the region. Improved coordination would lead to increasing the development impact of private sector development projects and programs while reducing transaction costs.

These activities fall within larger donor coordination efforts to improve the quality and effectiveness of development cooperation as reflected in the Paris Declaration on Aid Effectiveness of 2005, the follow-up Accra Agenda for Action of 2008 and the Busan Partnership for Effective Development Cooperation recently agreed on by donors in November 2011.

The analysis presented in this report relies on two sources of information: primary data collected during consultations with public and private sector stakeholders in Belize during the period November 7, 2012 to January 18, 2013 which served to help identify the main bottlenecks for investment and growth and secondary data and information available from multiple sources that are referenced throughout the document. An important contribution from this report, in addition to fulfilling the purpose of the Belize-PSAR, is to identify data and information gaps which in the case of Belize are material.

The rest of this report presents a summary of the main characteristics and issues of the economy of Belize as they relate to private sector development and the selection of priorities including those identified by the business community in Belize.

CHAPTER 1. PSD IN BELIZE AND THE STRUCTURE OF THE ECONOMY

1.A. PSD AND ITS GOALS IN BELIZE

4 Donor Matrix Guidelines. Draft February 2012. Inter-American Development Bank (IDB), 2012. The guidelines were created for Compete Caribbean by Carlos Elias.

At the time of this report on Belize's private sector development,⁵ the outlook for the world economy is once again fragile. Global growth remains historically low with major centres of economic activity—particularly large emerging economies and key advanced economies—expected to slow in 2012–13. Growth projections have been marked down—with forecasts for 2013 lowered for advanced economies to 1.5% (from 2%) and for emerging and developing countries to 5.6% (from 6%).⁶ Moreover, downside risks are considered to be more elevated. In advanced economies, growth is now too low to make a substantial dent in unemployment. And in major emerging market economies, growth that had been strong earlier has also decreased. Low growth and uncertainty in advanced economies and lower growth in emerging markets are affecting developing economies, through both trade and financial channels, adding to home grown weaknesses.

Against this backdrop, policymakers around the world and in Belize remain concerned about high unemployment and social conditions in their countries. In light of the uncertain global economic outlook, a commitment to prudent macroeconomic policies as well as structural reforms, to stimulate economic growth, reduce debt overhangs and large fiscal imbalances and to increase wellbeing, is important. In this vein, competitive national economies that provide an enabling environment for private sector development will be best positioned to weather the more fragile global economy and lower growth outlook.

Private sector development (PSD) encompasses tapping private sector initiative in the context of a society's articulated strategy and goals, as embodied in the discretion given to government by the society at large through the electoral process. PSD is also critical for advancing social agendas, in particular poverty reduction and "pro poor" policies— a main goal articulated by current policymakers in Belize. At this juncture, PSD and elements supportive of a broad and systematic public-private dialogue are in their infancy in Belize and represent a relatively new feature of Belize's economic and political landscape. In this regard, there is considerable potential for Belize—public and private sectors—to benefit from a systematic public-private sector partnership as a tool for stimulating economic growth and enhancing wellbeing including with donor support from international partners.

Country experience and research have shown that no government no matter how well intentioned and altruistic can increase employment and reduce poverty and increase overall wellbeing without a joint public-private partnership and "buy in" by the private sector. In parallel with public sector efforts, private investment, especially in competitive markets, has tremendous potential to contribute to growth and improved standards of living. For example, investment in infrastructure projects with private participation has made important contributions to easing fiscal constraints, improving the efficiency of infrastructure services, and extending delivery of opportunity to poor people. Developing countries have been in the forefront, pioneering better approaches to infrastructure services and reaping the benefits of greater competition and customer focus.

⁵ This report was written in December 2012.

⁶ See IMF, *World Economic Outlook*, October 2012, *Coping with High Debt and Sluggish Growth*.

The governing UDP party entered office in 2008 and won re election in 2012 amid a challenging environment characterized by severe natural disasters (widespread floods during 2008) and external shocks (food and fuel price increases), followed by the onset of the global economic slowdown. The administration also inherited a challenging fiscal situation owing to high external debt levels (70% of GDP in 2011) despite a market-friendly debt restructuring in 2007 and a legacy of weak governance. The governing party faces public pressure to combat rising levels of poverty, unemployment as well as crime and violence, amid a constrained fiscal environment. Poverty has increased sharply in recent years, partially attributed to the stagnating economic situation and the effects of the 2008 floods.

The latest Country Poverty Assessment (2009)⁷ for Belize showed that the overall poverty rate increased from 34% to 41% between 2002 and 2009 and that 55% of all households are either poor or susceptible to falling into poverty.⁸ Approximately 15.8% of Belizeans lived in indigent conditions in 2009, up from 10.8% in 2002.⁹ This represents a 46% increase over the period. Accordingly, the goals of PSD in Belize once agreed have to address poverty. In this context, the goals of PSD are intimately linked with macroeconomic stability and sustainable economic development aimed at protection of Belize's natural resource base.

The broad national development goals for Belize have been expressed in the context of The National Development Framework for Belize, 2010-2030, also referenced as "Horizon for Belize" also known locally as "Horizon 2030". Horizon 2030 is a product of an extensive consultative process of all stakeholders to Belize's future, including private sector actors. This report elaborates the following broad vision for Belize by 2030:

Belize is a country of peace and tranquility, where citizens live in harmony with the natural environment and enjoy a high quality of life. Belizeans are an energetic, resourceful and independent people looking after their own development in a sustainable way.¹⁰

The role of the private sector in Belize's national development strategy is not yet clearly articulated and this is also reflected in Horizon 2030's lack of specificity with respect to the participation of the private sector in reaching agreed goals. In this regard, there is an apparent prevailing perception in the business community that the Government of Belize's vision for more than a decade has not embraced a well-thought out role for either the private sector or PSD. In the view of most private sector stakeholders, Governments have focused more on "pro poor" strategies and policies rather than on "pro-business" policies. Yet, pro poor and pro-business

⁷ CDB. *Belize, 2009 Country Poverty Assessment*, August 2010.

⁸ World Bank, *Country Partnership Strategy (CPS) for Belize*, July 2011.

⁹ UNDP, *Belize, Scorecard and Outlook Report, 2010*, page 33. As is the case for general poverty, this increase puts Belize well off the path to achieve the MDG by 2015 and is also inconsistent with the expectation of a general reduction in poverty by the National Poverty Elimination Action Plan (2007-2011).

¹⁰ *National Development Framework for Belize (Horizon 2030)*, page 2.

goals are complementary and not zero sum as Belize's own experience in developing the tourism sector confirms. A stronger private sector and a clearly articulated policy for PSD help in addressing poverty reduction and the macroeconomic challenges that Belize faces.

The perception, that the role of PSD in Belize's development has not been well thought out, is consistent with the assessment of the DMX for Belize undertaken independently of the PSAR for Belize. As elaborated in the DMX for Belize, "Belize has yet to do the work to determine its aspirations and context for private sector development. While concurrent budget speeches and at least two policy instruments...suggest a willingness to embrace PSD as a driver of economic growth, there does not appear to be consensus among stakeholders on the main objectives behind private sector development or a common understanding of the modalities for PSD and why it is necessary for development." Moreover, there is "no evidence of a strategy or policy framework which establishes PSD as the cornerstone of Belize's development strategy, defines the objectives and approaches to private sector development in specific terms and which is broadly endorsed by all stakeholders."¹¹ Therefore, a major immediate challenge for Belize is to establish an institutional framework for PSD and a lasting public-private partnership.

The Medium Term Development Strategy (MTDS) for Belize for 2010-2013 elaborated Belize's development priorities for this period. That document indicated the following eight goals relevant to private sector development:

1. The development of an enterprise culture and expansion of MSME'S
2. Investment promotion and marketing of priority areas identified under the first national economic strategy
3. Improved agriculture, agro-sector and manufacturing
4. Promotion of tourism and other related services
5. Expansion into gaming
6. Development of export financing
7. Better export quality and certification management
8. Export and trade competency development

According to Belize's DMX,¹² there is a broad correlation between these priorities and the types of interventions financed by donors. However, there is an issue concerning the participatory nature of the MTDS 2010-2013 with implications for "buy in" by private sector and other stakeholders.¹³

11 Compete Caribbean, *Private Sector Donor Matrix, Belize 2012*, March 2012 (Belize DMX, 2012), page 24. The DMX methodology, created by Dr. Carlos Elias, is a tool that is intended to be used by government, stakeholders, and the donor community to improve coordination of PSD programs and projects.

12 Belize DMX, 2012, pages 24-25.

13 Idem.

In the tradition of the earlier MTDS, the draft MTDS for 2013-2015 is meant to be oriented to immediate priorities.¹⁴ However, unlike the MTDS for 2010-2013 the Government of Belize (GOB) officials have indicated that there will be broad consultation with private sector stakeholders in particular before Cabinet¹⁵ approval. This will hopefully mean that the priorities identified would reflect private sector stakeholder views. Moreover, the new MTDS is expected to be less of a normative plan and more of an action plan, which identifies specific roles for public and private sectors stakeholders as well as elaborates tactical plans and indicates deliverables with on-going monitoring and agreed deadlines assigned.

The MTDS for 2013-2015 will be an important context for the identification of obstacles to private sector development and the priorities for a public-private partnership over the medium term upon which actions should be taken. As discussed in Chapter 2, the process of building a strengthened public-private partnership has been complicated by the new governmental structure that has emerged since the reorganization of Ministries after the March 2012 elections. Interviews with private sector stakeholders and Government officials indicated the need for clarity in Ministries' missions and mandates. Not surprising, as a result of the most recent reorganization apart from weekly Cabinet meetings which include Ministers and their Chief Executive Officers (CEOs), the lines of communications between institutions and how institutions relate to one another in the new structure are in transition and thus not clear. It is also not clear where authority rests with respect to some private sector development issues.

1.B EXTERNAL SUPPORT FOR PSD

If the beneficiaries and stakeholders in private sector development are challenged by coordination failures, perhaps it is no surprise that the donors are also similarly challenged. According to the DMX for Belize, “the donors admit that while there have been attempts to coordinate interventions, for instance the IADB has led and funded several donor conferences/meetings, and the CDB and World Bank recently signed a Memorandum of Understanding to increase collaboration and coordination, there is no meaningful coordinating mechanism at either the country or donor level”.

The larger donors identify priorities through bilateral discussions with government officials, private sector players and organizations, and civil society organizations, reconcile the results of these with their own strategic thrusts and enumerate the results in a Country Strategy or plan which then guides their funding decisions for the duration of their operating cycles. Private sector funding, donors reluctantly admit is often the result of bilateral lobbying and discussions with government officials. The more thorough will reconcile the priorities and expand the search by including consultations with relevant private sector groupings but the safe conclusion is that PSD funding in Belize is not driven by coordination or directed by PSD policy.”¹⁶

14 Belize, DMX, 2012, page 24.

15 Cabinet is the ultimate decision making body.

16 Belize DMX, p. 32.

Those agencies that do not have a local presence in Belize have relied for the most part on the Ministry of Economic Development, Commerce and Industry and Consumer Protection as the focal point for project execution and program facilitation. The Ministry has been the de facto focal point for all projects, including those not related to PSD, but readily admits that it does little in the way of coordinating. With the reorganization of governmental ministries and mandates after the 2012 elections, it is no doubt that coordination failures have increased in the short run.

According to the DMX for Belize, “the result of coordination failures at all levels is overlap and duplication of donor activity. The donor mapping suggests that the majority of interventions seek to address productive structure issues at the expense of policy and the broader business environment issues, and build institutional capacity often within the same institutions. Donors concede that the potential for instances of overlap, duplication or program saturation is increased because of coordination failures and failure to identify PSD priorities.”¹⁷

In terms of external support for the development of the private sector in Belize, the 2012 Donor Matrix (DMX) for Belize¹⁸ identifies twenty-nine programs with PSD relevance. ¹⁹There are 13 donors, of which 10 are multilateral donor agencies with a regional scope of programs.

- Two donors are from multilateral agencies with a global program scope. One donor focuses on the member states of the Commonwealth Community. These programs/projects represent about US \$163.34 million in funding of which US \$112 million (69%) is grant funding.
- The single largest financial contributor to private sector initiatives in Belize is the European Union providing US \$105 million in financing representing two large long-term loans (10 years or more) for the banana and citrus industries.
- There are six other donors that have provided at least US \$1 million to Belize each between 2009 and March 2012 including the Inter-American Development Bank (IDB), Caribbean Development Bank (CDB) and Cart Fund, CARICOM Development Fund (CDF), Republic of China (Taiwan), International Fund for Agricultural Development (IFAD), and the Central American Bank for Economic Integration.

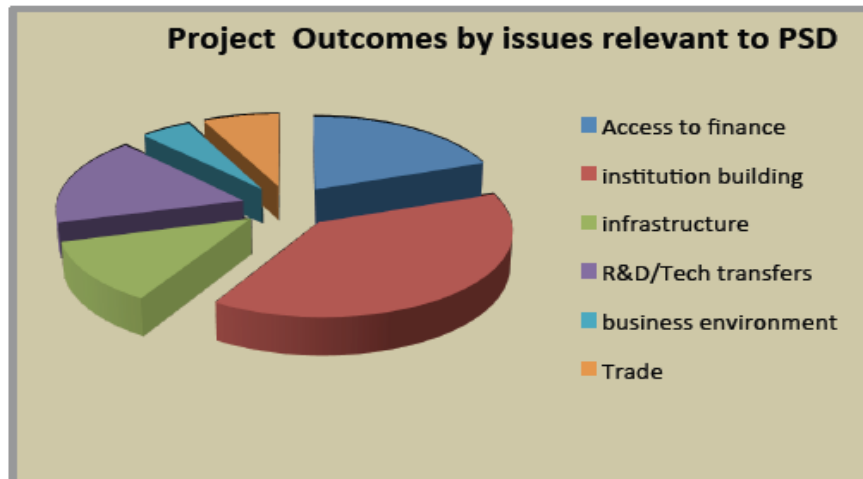
The focus of financing for PSD has been allocated mainly to activities that seek to improve the business supportive institutional infrastructure and access to finance.

Figure 1. PSAR Classification of PSD Related Financing

¹⁷ Belize DMX, p. 31.

¹⁸ Compete Caribbean, Belize DMX, 2012.

¹⁹ Note that there is a year between the preparation of the Belize DMX and the PSAR report so that the PSAR is relying on relatively vintage data and given the tight deadline for the PSAR there was not scope for adjusting these data.



Source: Belize DMX, 2012, page 15.

Specifically, these investments have financed interventions aimed at the following areas:

- Interventions to address international economic activities: trade facilitation, trade missions; and export/import.
- Interventions to address the domestic economy: macroeconomic stability, and labour market adjustments.
- Interventions to improve the production structure such as access to capital, specific sector support initiatives, infrastructure supply and innovation.
- Projects to improve institutional capacity through business support organizations.
- Direct support to private sector actors in the form of loans, technical assistance for capacity building, and innovation support.

Against this backdrop, there are several broad and important recommendations aimed at addressing institutional failures that inhibit PSAR based on the analysis in the DMX for Belize and this PSAR for Belize that also warrant international donor support:

- The public-private partnership needs to be strengthened and a systematic mechanism for public private coordination put in place that transcends changes in government and governmental reorganizations.
- Successful public-private partnerships in other natural resource based countries, such as Costa Rica (Box 1), can serve as models for tailoring strategies aimed at a “Belizean approach”.
- Public-private partnership can identify emerging and fast growing sectors that warrant public and private support.
- A durable public-private partnership will require greater stability of the public service and also a return to a professional public service including more permanent senior public service officers.

Box 1. PSD in Costa Rica

Costa Rica has been distinguished as a successful country by employing a strategy driven approach inclusive of the private sector. Main policy instruments used include:

- A strong public-private partnership: The private sector is represented by the Costa Rican Coalition for Development Initiatives (CINDE) which plays a major role in attracting FDI, and;
- Since the early 1990s the country's strategy was selective, focusing on only a few sectors, for instance, the 1993 Strategic Plan focused on the electrical, electronic and telecom industries.

Source: Belize Chamber of Commerce and Industry (BCCI), *Investments in Belize: A Strategy for Innovation, Competitiveness, Entrepreneurship and PSD, 2012.*

With these cornerstones in place the public-private partnership in Belize can agree on more specific sector oriented policies and strategies for PSD and economic growth that require concerted action. Belize can also contribute to advancing the discussion on public-private sector partnerships as a tool for stimulating economic growth and reducing poverty.

1.C. AN OVERVIEW OF THE BELIZEAN ECONOMY

A stable macroeconomic climate, the provision of basic infrastructure, and transparency in terms of rules and regulations for operating in an economy as well as communication between public and private sector on priorities are among the most critical pre-requisites for an enabling environment for private sector development (PSD). These are, however, also areas in which the Belize's economy has consistently struggled. This section provides an overview of macroeconomic conditions in Belize. It focuses on domestic and international economic conditions and also discusses the productive structure in the country based on the limited information available.

1.C.1 DOMESTIC

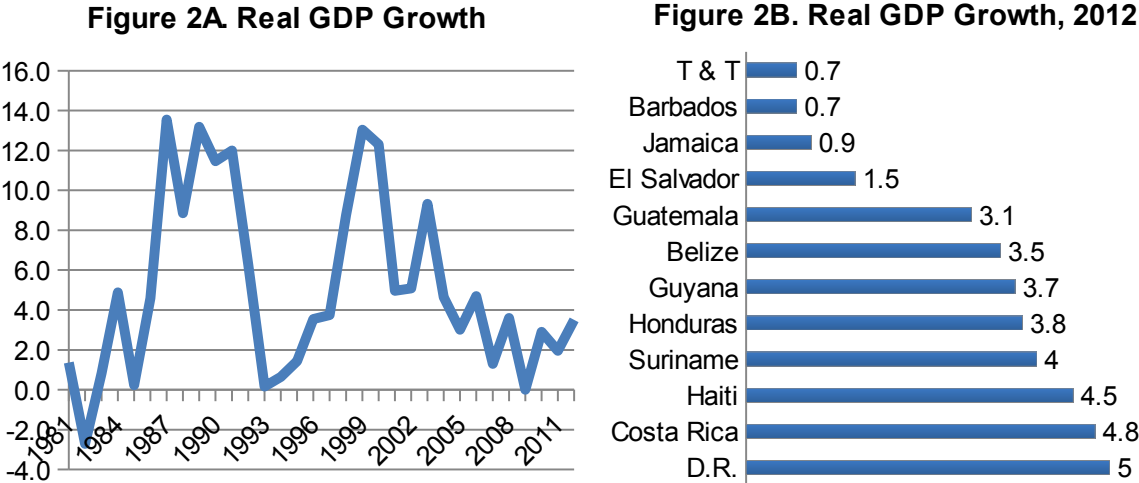
Belize is a small highly open, natural resource based, lower middle-income country.²⁰ Belize is land-abundant and also has a comparative advantage in natural resource exploitation.²¹ Consistent with this profile, tourism and agriculture have been the main natural resource-based activities and the engines of economic growth since the late 1980s. Belize's economy has seen an

²⁰Belize is classified as a lower middle-income country by the World Bank. For Lower middle income countries, for 2010, gross national income (GNI) per capita ranges from US\$1,006 to \$3,975.

²¹ Ben Rowland, Juan Jose Durante, and Dougal Martin. *Belize, A Private Sector Assessment*, page 4.

impressive structural transformation from a mono economy based mainly on sugar production and exports, to a more diversified and internationally integrated economy based on both tourism and agriculture, and as of 2006 oil production. However, over a shorter horizon diversification of both output and exports in Belize has been “limited”²² including as compared to other countries leading to a lower growth rate on average relative to comparator countries.

GDP growth in Belize has been positive, though volatile since 1980 (Figure 2A and Table 4). Although the volatility in GDP growth has declined since 1981 it remains a problem. GDP growth increased on average from the 1980s to the 1990s before declining on average since 1999 owing to natural disasters (Table 2). Belize’s real GDP growth in 2012 is expected to be in the range of 3.5-4%²³ rebounding from an average annual rate of about 2% since 2007 reflecting a recovery in both the tourism and agriculture sectors. In comparison, GDP growth in Caribbean countries is lower on average in 2012 while for Central America it is higher on average (Figure 2B) and forecast to recover to 3.9% in 2013.



Source: CBB, CIA Factbook and IMF

In the 1980s, the agriculture sector was the main source of growth in the Belizean economy—with agriculture averaging 17% of real GDP. The development strategy for Belize in the 1960s, 1970s and early 1980s aimed at increasing real output by developing the agricultural sector for export and domestic consumption and the secondary industries and services that contributed most to that sector.²⁴ The growth rate for the sector for the 30-year period averaged just above 6% per annum. This growth rate exceeded growth rates for neighbouring Latin American and

22 Idem.

23 Statement by an IMF Mission to Belize, November 15, 2012.

24 Government of Belize, *The Belizean Seven-Year Plan, 1964-1970*. Central Planning Unit, *Development Plan 1977-79*, March 1977; *Economic Plan of Belize 1980-1983*, April 1980.

Caribbean countries.²⁵ In terms of dynamics, real growth in the sector stagnated in the 1980s and declined in the 1990s. Exports of agricultural products as a share of total exports averaged 22%

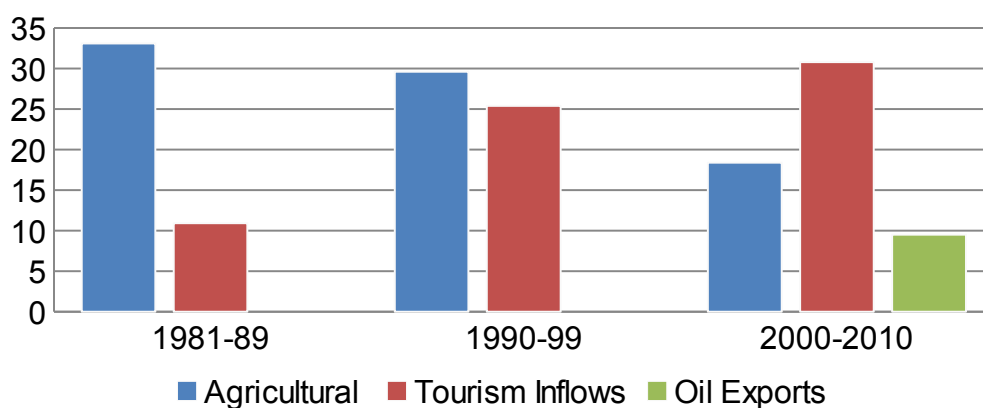
Table 1. Belize: GDP Growth
1981-2012

| Period | Vol: Growth of C |
|-----------|------------------|
| 1981-1989 | 5.0 |
| 1990-1999 | 6.1 |

in the 1980s. However, the share fell from 31% in 1980 to 17% in 1989. There was a short lived revival in agricultural activity, in real terms, in 2000-2006 and a subsequent decline reflecting hurricanes, storms and floods (Table 5). In comparison, in 2010 agricultural exports registered a modest 8% of GDP and 13% of total exports of goods and services (Figure 3).

The sustained growth of the agricultural sector was heavily dependent on a few traditional products that were exported to preferential markets in Europe provided for under the Lome

cultural, Tourism, and Oil Exports as a Percent of Exports of Goods



Source: Statistical Institute of Belize.

²⁵ Ministry of Agriculture, *The National Food and Agricultural Policy* (2002-2020), April 2003.

Convention.²⁶ As a result, Belize’s main export products—sugar and bananas—were not competing in open markets. However, with the emergence of the single European market

Table 5. Recent Natural Disasters: Impact on Agricultural Sector

| Name of the Event | Date & Year | Agriculture sector damage cost (BZD) |
|------------------------------------|------------------------|---|
| Hurricane Dean | August 21, 2007 | The total losses to this sector is approximately 131.1 million (\$40.40 in direct damage and \$90.70 in indirect loss) |
| Tropical Storm Arthur | May 31, 2008 | \$25 million. This includes direct loss to the farmer (damage assessment), which is estimated at around \$11.7 million, and other losses. |
| Tropical Depression (TD)-16 | October 30, 2008 | \$7.8 million (papaya and rice -30% of total major crops) |
| Hurricane Richard | October 21, 2010 | Direct damages to the agricultural sector is \$34.68 million |

Source:

Nemo.

complaints about African and Caribbean countries’ preferential access to European markets were brought to the World Trade Organization and the preferential treatment for Belize’s exports with Europe was phased out. In addition, natural disasters have been one of the major challenges for agricultural development, food and livelihood security (Table 2).

Against the backdrop of an agricultural sector devastated by domestic and international developments, Belize’s goal of export diversification was initiated mainly via the development of the tourism sector.²⁷ The economic crisis witnessed in the 1980s brought to the forefront the negative consequences of relying on one major crop for production, employment, and foreign exchange. Tourism subsequently emerged as one of the main engines of growth in the Belizean economy and the principal source of foreign exchange.

26 Preferential access based on a quota system was agreed for products, such as sugar and bananas, in competition with European Community agriculture. The emergence of the single European market at the end of 1992 affected preferential access to EU markets.

27 See also next section.

In 2011, the tourism sector generated US \$292 million in inflows accounting for about 20% of GDP as compared to about 6% of GDP in 1985. From 1984 to 2011, tourism inflows averaged a steady annual increase of about 7%. By 2011, the tourism's sector's total contribution (direct and indirect) to GDP and employment in Belize registered 45% and 41%, respectively (Table 6).

Table 6. Tourism: Contributions to GDP and Employment, 2011
(percentage share)

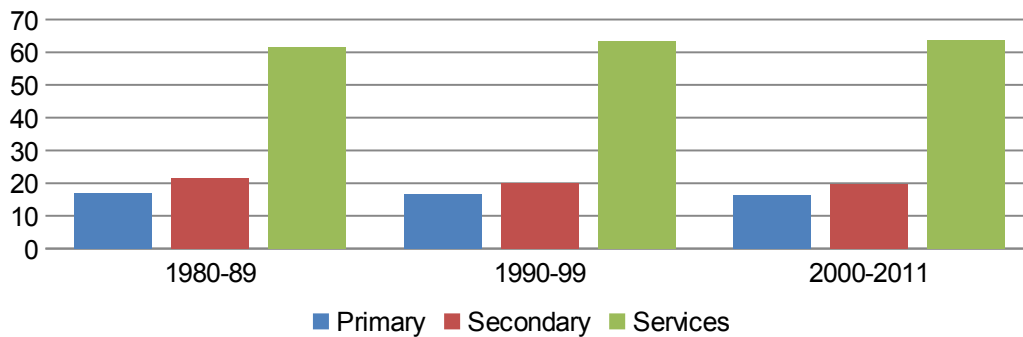
| | Contribution to GDP | | Contribution to Employment | |
|---------------------|---------------------|----------|----------------------------|----------|
| | Direct | Indirect | Direct | Indirect |
| Antigua and Barbuda | 17.7 | 74.9 | 17.9 | 69.8 |
| Bahamas | 18.5 | 46.2 | 25.8 | 53.8 |
| Barbados | 12.9 | 43.5 | 13.0 | 42.7 |
| Belize | 12.0 | 33.2 | 10.9 | 30.1 |
| Dominican Republic | 4.7 | 15.1 | 4.3 | 14.0 |
| Jamaica | 7.6 | 25.6 | 7.2 | 24.0 |
| Mexico | 5.6 | 12.4 | 6.3 | 13.7 |
| St. Kitts and Nevis | 7.5 | 28.0 | 7.4 | 26.4 |

Source: World Tourism Association, 2012

These contributions were slightly below those of more mature tourism sectors to GDP and employment (Table 5). These changes in Belize's production and exports illuminated the successful structural transformation of Belize's economy.

Reflecting the developments in output discussed, the sectoral contribution to GDP has shifted to services and secondary activities (Figure 4) away from agricultural output since the 1970s. This shift has been more gradual since 1984. However, since 2008, the share of services in GDP has declined reflecting the impact of the global financial crisis and recession on the tourism sector and also a rebound in agricultural output represents recovery from hurricanes and flooding and also an effort to support agricultural output.

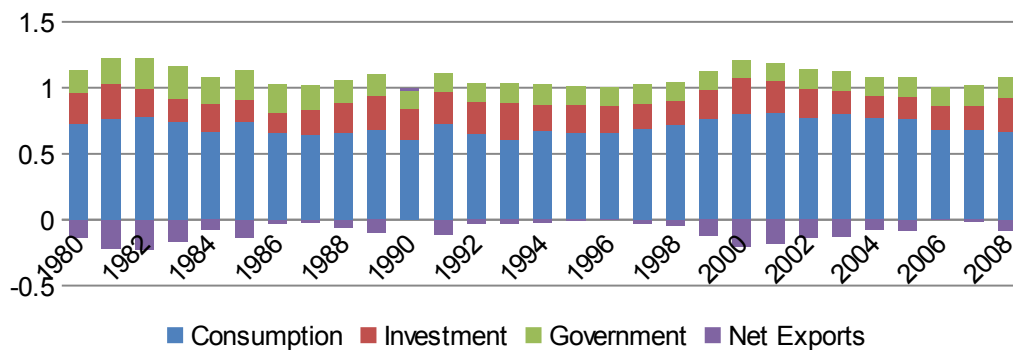
**Figure 4. Sectoral Composition of GDP
(Shares in Constant 2000 GDP)**



Source: CBB and author's calculation.

In comparison, the expenditure composition has remained broadly unchanged dominated by consumption (Figure 5).

**Figure 5: Expenditure Composition of GDP
1980-2010**



There have also been gains in per capita GDP on average since the 1980s which also saw yearly average increases of 6% during the period. Belize's per capita growth performance during the last 30 years has been comparatively good, averaging annual increases of 6%. As of 2011, Belize ranked (after Panama and Costa Rica) among Central American countries, on the basis of per capita GDP and higher than the CARICOM average. However, within the Caribbean only two

countries (Haiti and Guyana) had lower per capita GDP than Belize in 2011. In comparison, Belize ranked number 117 of 226 countries and territories.²⁸

Employment and labour market participation is another important dimension of an assessment of economic performance for a country. High unemployment and discouraged workers pose economic costs for society and for individuals that go well beyond the loss of income to which it gives rise. Belizean employment and labour force participation have seen modest gains since the 1980s. The unemployment rate decreased steadily from 1990-1994 and again in 1998-2000 consistent with two periods of accelerated economic activity (Figure 6).²⁹ However, high unemployment has been enduring, registering double digits in 17 of the 20 years between 1990 and 2011 reflecting also a relatively low skilled work force.³⁰ In this regard, Belize's shortage of skilled labour and technical personnel across sectors is a significant constraint to growth. Labour force participation has hovered around 60% from 2000 to 2008.

There is a paucity of disaggregated time series data on the labour force and employment in Belize. The April 2012 SIB Survey³¹ provides a recent snap shot of Belize's labour market. According to the survey, Belize's labour force is about 59% male. In comparison, in 2002 the labour force was approximately 69% male.³² Belize's labour force is relatively uneducated with almost three quarters having a primary school or less education (no education 45.9% and primary

28 IMF and CIA Factbook. The countries, in rank order from highest to lowest per capita GDP are Cayman Islands, The Bahamas, Barbados, Trinidad and Tobago, Antigua and Barbuda, Puerto Rico, Saint Kitts and Nevis, Panama, Costa Rica, St. Lucia, Dominica, St. Vincent and the Grenadines, Grenada, Cuba, Dominican Republic, Belize, Jamaica, El Salvador, Guatemala, Honduras, Nicaragua, and Haiti.

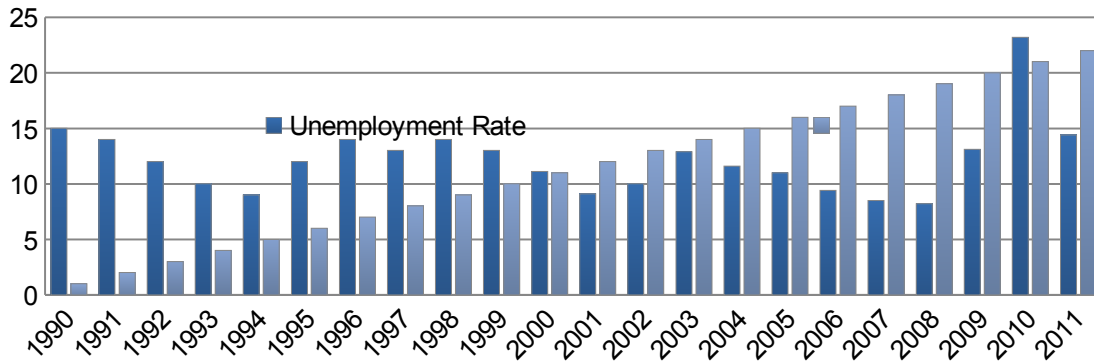
29 Employment, unemployment and labour participation data are available as of 1990. Compensation data include grants from the Ministry of Finance to the Ministry of Education for wages.

30 See Bulmer-Thomas, April 2011.

31 Statistical Institute of Belize (SIB). *Belize Labour Force Survey, April 2012, Summary Findings*. The SIB changed its survey procedures and methodology. Labour surveys are undertaken twice annually and are based on a reduced sample size.

32 SIB, *Labour Force Statistics 2002-2006*.

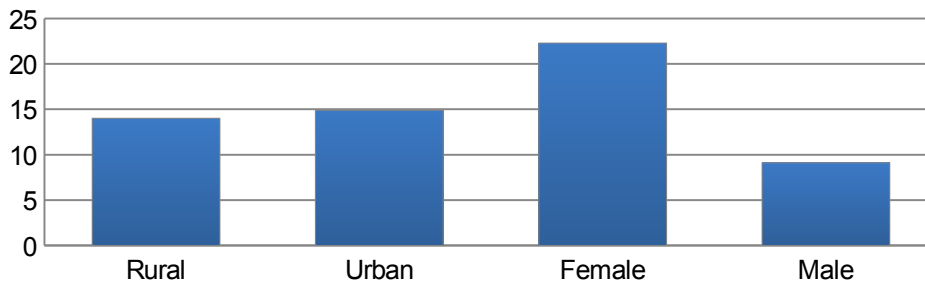
Figure 6. Unemployment, 1990-2011
% of Labour Force



Source: Statistical Institute of Belize

education 28.8%). Of these unemployed persons with no level of formal education almost two-thirds (63.5%) are females (Figure 7). Almost a third of the employed labour force (30.9%) work in clerical, service and sales jobs, and about one-quarter of the employed work in elementary

Figure 7. Unemployment Rates, 2012
(%)

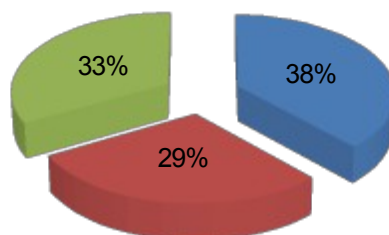


Source: Statistical Institute of Belize, 2012.

occupations such as cleaners and helpers, food preparation assistants, agricultural and fishery labourers and construction workers (Figure 8). The most recent data available on the distribution of employment across sectors (2008) indicate that 57% of employment was provided in the tertiary/services sector, with about 26% in the primary sector comprised of jobs in agriculture and forestry. Young people (14 to 24 years) were most affected by limited job opportunities.

Figure 8. Employment by Main Occupation, 2012

■ Clerical/Service/Sales ■ Skilled Agric./Craft/Manufacturing
■ Elementary



Source: Statistical Institute of Belize, 2012.

Available data indicate that the Government of Belize has had an expanding role in employment and compensation since 1990. Reflecting this feature, the government's wage bill is high inter-temporally and by regional and international standards (Table 7).³³ In this regard, Belize's wage bill averaged about 11% of GDP in 2000- 2010. In comparison, in 2000-2008, employee compensation as a share of GDP averaged about 5.2% of GDP for low income countries.³⁴ In the absence of expanding revenue, the growth in the wage bill poses a threat to PSD. Growing expenditure on compensation is crowding out expenditure for social services and infrastructure.

Table 7. Government Compensation of Employees¹

| Country Groups | % of GDP | % of | % of |
|---------------------------------|-------------|----------------------------|------------------------|
| | | Government Expenditures | Government Revenues |
| Africa | 6.5 | 30.4 | 29.5 |
| Asia and Pacific | 5.1 | 26.2 | 23.1 |
| Europe | 5.7 | 17.4 | 17.5 |
| Western Hemisphere | 8.2 | 31.0 | 29.6 |
| Belize | 10.5 | 45.1 | 47.5 |
| Middle East and Central Asia | 7.1 | 28.9 | 24.8 |
| European Union | 5.2 | 15.9 | 16.3 |

³³ Metzgen, *Belize: Government Compensation and Employment, 1990-2010*, IDB Study, December 2011.

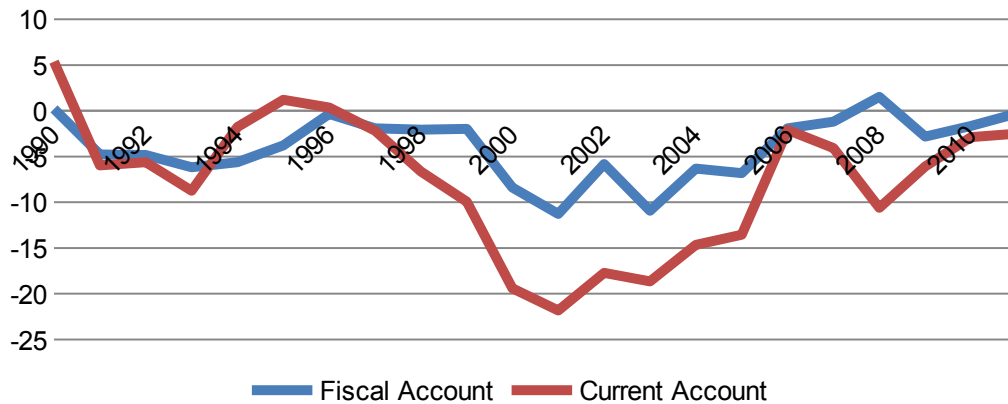
³⁴ See Clements, et. al. *Evaluating Government Employment and Compensation*, 2010.

| | | | |
|----------------------|-----|------|------|
| Low-Income Countries | 5.2 | 28.6 | 27.9 |
| Middle-Income | 7.3 | 27.6 | 26.0 |
| High Income | 6.1 | 20.4 | 18.6 |

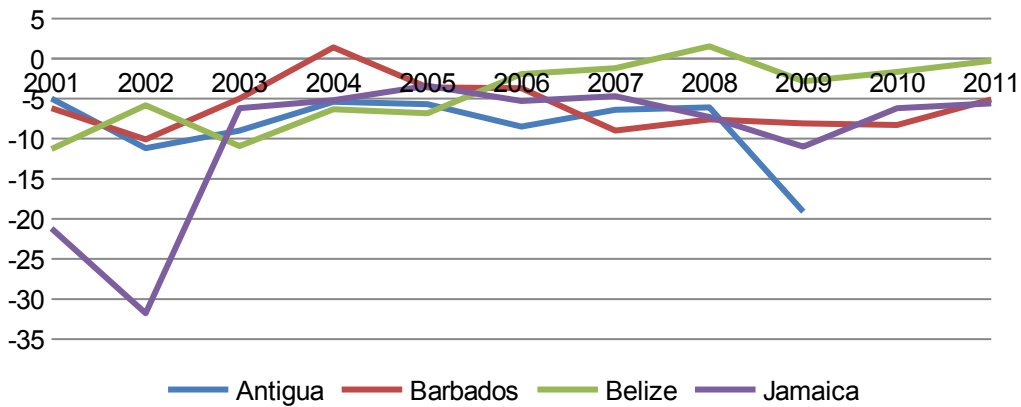
Source: GFS database, IMF staff estimates, and Belize, Ministry of Finance Budget data.

In terms of the policy environment, overly expansive macroeconomic policies followed by retrenchment (Figure 9A) have led to volatile growth. In this regard, there is broad consensus that the orientation of fiscal policy has not been enabling to private sector credit growth and PSD. The persistent fiscal and current account deficits, Belize ran budget deficits in 21 of the last 22 years (Figure 9A) and current account deficits in 20 of the previous 22 years, have generated an environment of uncertainty with negative implications for PSD and the growth of Belize’s local business sector.

**Figure 9A. Fiscal and Current Account Position
1990-2011, % of GDP**



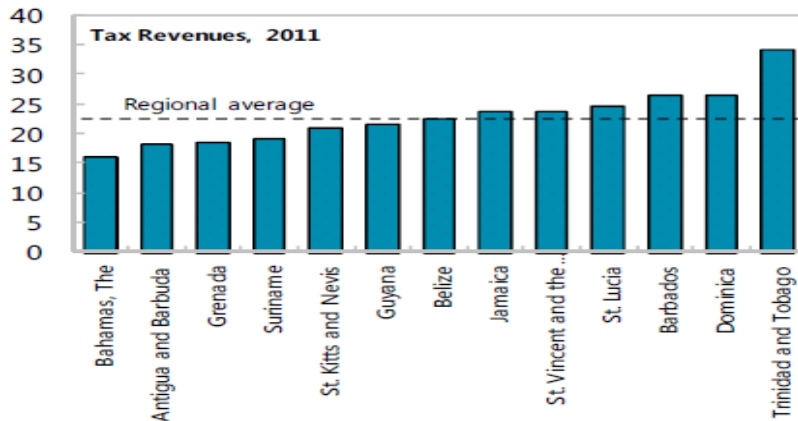
**Figure 9B. Fiscal Deficits in Selected Peer Countries
(% of GDP)**



Source: Central Bank of Belize and IMF.

These deficits were financed mainly via borrowing on commercial terms and to a lesser extent by increased foreign direct investment flows (see Section 1.B.2.a). However, Belize’s fiscal performance relative to other countries in the region running deficits, on average, has been superior (Figure 9B). Investment in Belize has been driven mainly by public investment financed mainly by borrowing given Belize’s relatively low tax rates (Figure 10). Monetary policy has generally been subordinate to fiscal policy objectives. Inflation in Belize has not exceeded 7% for more than 20 years.

Figure 10. Tax Revenues in the Caribbean, 2011

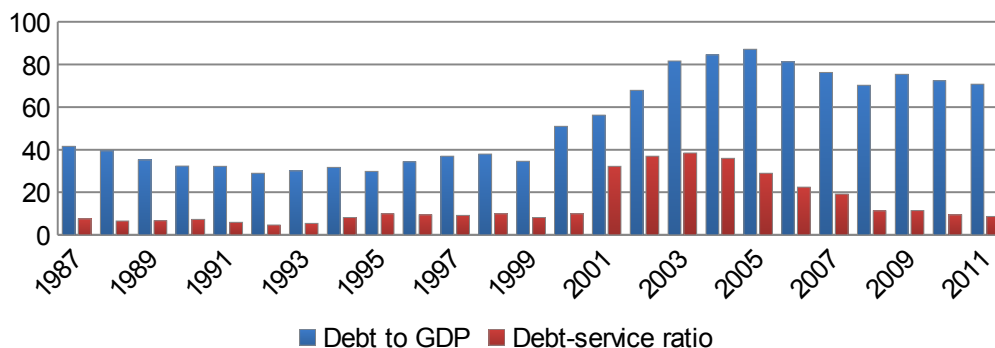


Source: IMF, Belize 2011 Article IV Staff Report.

Against this background, the government’s financing requirement put upward pressure on reserve requirements contributing to a high cost of finance including relative to comparator

countries.³⁵ Moreover, in response to persistently lax fiscal policy, Belize rapidly accumulated debt after 1999, as reflected in an unprecedented jump in the debt to GDP ratio in the 1990s to 73% in 2000-2010 (Figure 11). Belize’s mounting debt also reflects a low effort at mobilising

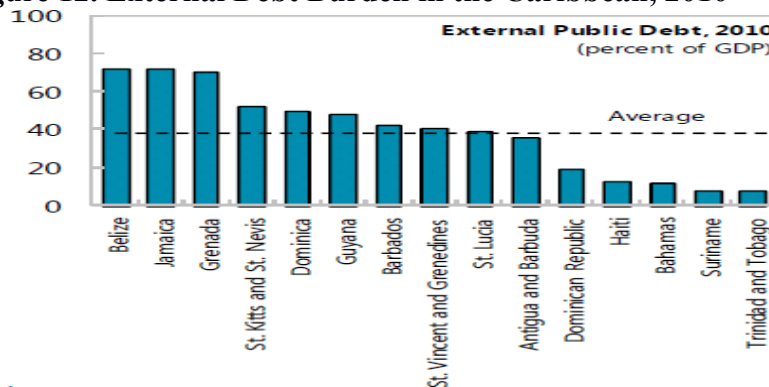
Figure 11. Debt Profile



Source: CBB.

domestic resources through the tax system. In this regard, Belize has emerged as one of the most indebted countries in the Central American and the Caribbean region (Figure 12). Belize’s external debt burden is currently one of the major obstacles to growth. The recent successful debt

Figure 12. External Debt Burden in the Caribbean, 2010



Source: IMF, 2011 Belize Article IV Staff Report.

restructuring of Belize’s external obligations provides some fiscal space. However, there is the need to facilitate and harness the contribution of the private sector so that Belize can in the future meet the newly negotiated terms on its large external debt. In this regard, the orderly workout between GOB and its creditors is an important milestone with respect to the ability of private sector companies to tap foreign financing.

³⁵ Reserve requirements are unremunerated and therefore a direct and significant tax on financial intermediation which exacerbates the cost of finance.

1.C.2

INTERNATIONAL ECONOMY

1.C.2.a

TRADE

International trade tends to be more important for countries like Belize that are small in terms of geographic size or population and surrounded by neighbouring countries with open trade regimes than for countries that are large, relatively self-sufficient, or geographically isolated. Other factors that help explain differences in the importance of international trade across countries include history, culture, trade policy, and the structure of the economy.

In 2010, Belize was classified among the group of highly open economies on the basis of exports and/or imports and/or total trade in goods and services as a percentage of GDP. Belize is more open than the highly open economies of peers in the Caribbean region and Central America (Table 8). Merchandise export growth averaged almost 8% yearly in 2000-2011, the same rate

**Table 8. Exports of Goods and Services,
Belize and Peers
(as a% of GDP)**

| Country | 2007 | 2008 | 2009 | 2010 |
|--------------------|-----------|-----------|-----------|-----------|
| Antigua & Barbuda | 42 | 44 | 44 | 46 |
| Barbados | 59 | 60 | 61 | 47 |
| Belize | 65 | 64 | 54 | 59 |
| Costa Rica | 49 | 45 | 42 | 38 |
| Dominica | 34 | 34 | 32 | 32 |
| Dominican Republic | 29 | 25 | 22 | 22 |
| El Salvador | 26 | 27 | 23 | 26 |
| Guatemala | 26 | 25 | 24 | 26 |
| Honduras | 54 | 51 | 41 | 44 |
| Jamaica | 39 | 40 | 34 | 26 |
| Mexico | 28 | 28 | 28 | 30 |
| Nicaragua | 34 | 34 | 35 | 43 |
| Trinidad & Tobago | 65 | 64 | n.a | n.a. |

Source: IMF.

of growth in the 1990s, based on a boost in total exports from petroleum. In real terms, merchandise exports peaked at 37% of GDP in 1988 declining steadily to 26% in 1996 and recovered to 42% of GDP in 2011.

However, the diversification of exports as a channel for increasing growth, an important objective for Belize, remains a challenge as it does for Caribbean and Central American peers.³⁶

36Justino De La Cruz, *Export Diversification and the Caribbean Basin Economic Recovery Act* (CBERA), US International Trade Commission,

A review of Figures 13A and 13B based on data from the Economic Complexity Observatory does show increased export diversification for Belize in 2009 as compared to 1995. Belize

Figure 13A. Treemap of products exported from Belize to World in 2009

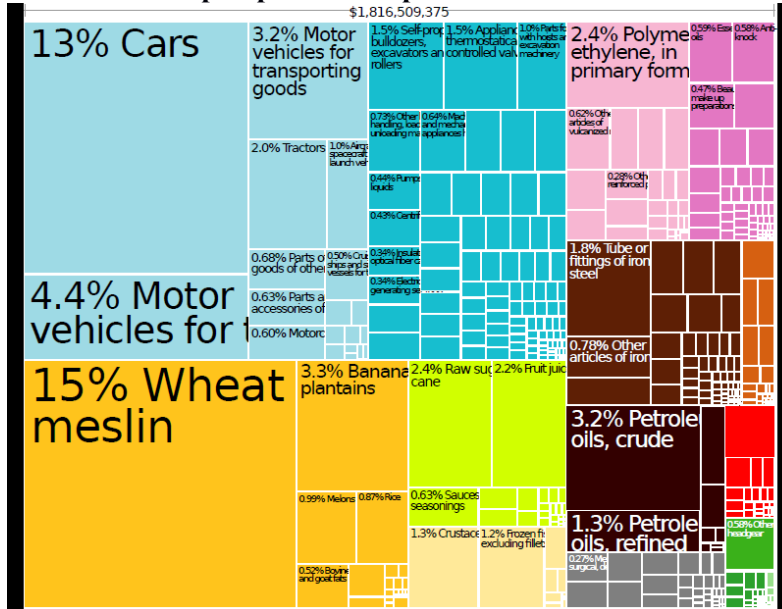
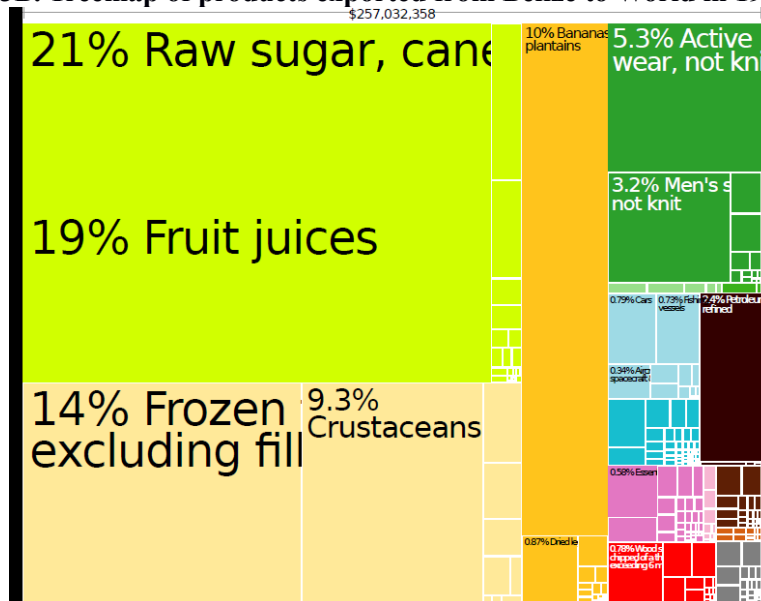


Figure 13B. Treemap of products exported from Belize to World in 1995



(along with Barbados, Jamaica, and Trinidad) has exhibited incremental systematic improvement in the structure of merchandise exports vis-à-vis the US market. In comparison, Central

September 2008.

American countries have in general experienced more export diversification while the OECs countries exhibited less diversification.³⁷

According to a 2002 study, export earnings more recently have been quite stable in the Caribbean, reflecting the fact that the region's export earnings are generated from service exports, which tend to be less volatile than goods exports.³⁸ Analysis also suggests that agricultural output in the Caribbean is much more volatile than industrial or services activities.³⁹ In line with this, in Belize, the decrease in the contribution of agricultural exports to total exports and more generally to the economy has led to decreased volatility in export earnings and GDP growth (Table 9). The decline in export volatility during the period also reflects the increasing share of tourism exports and service exports in general to total exports of goods and services.

Table 6. Export Growth and Volatility

| Period | Merchandise Exports | Export Volatility |
|-----------|---------------------|-------------------|
| 1981-1989 | 9.1 | 10.1 |
| 1990-1999 | 7.1 | 7.1 |

Similarly for the Caribbean region, export volatility has declined since 1980 also representing greater output and export diversification.⁴⁰ For Belize, GDP growth volatility has exceeded the volatility of export growth.

As noted, Belize has run mainly external current account deficits since 1984. In 2008 the current account balance peaked at almost 11% of GDP and narrowed yearly to 2.5% of GDP in 2011 (Figure 14A, right scale). These deficits have been higher than those in comparator countries. In decomposing the external accounts, it is clear also that Belize's high propensity to import, leading to a consistently negative trade balance, has been driving these deficits while the services balance has been consistently positive (see Figures 14A and 14B). Belize financed these deficits by external borrowing on commercial terms leading to a debt restructuring in 2006/07.⁴¹ Belize's lacklustre-growth since 2006 including as a result of the global economic developments set the

37 Taylor indicates that the empirical results of this study are consistent with the hypothesis that both historical relationships and EU trade policy have served as a disincentive to the diversification of exports from CARICOM countries.

38 Berizen, Saleizadeh and Santana, page 8.

39 Ibid, page 9.

40 Ibid. page 10.

stage for a second debt restructuring in 2012 and a future debt payment burden with negative implications for economic growth.⁴²

Concerning the direction of Belize’s trade traditionally, Belize’s merchandise exports have been primarily to high-income countries, in particular the U.S., the U.K., Canada, and Europe. However, the share of exports to high-income countries in total exports has fallen from 97% in 1981 to 67% in 2010. Exports to countries in Central America and the Caribbean trended downward from 1981 to 2000 before subsequently growing to 20% of total exports. In comparison, the share of other developing countries in total exports has increased from 1% in 1990 to 13%

Figure 14A. External Accounts

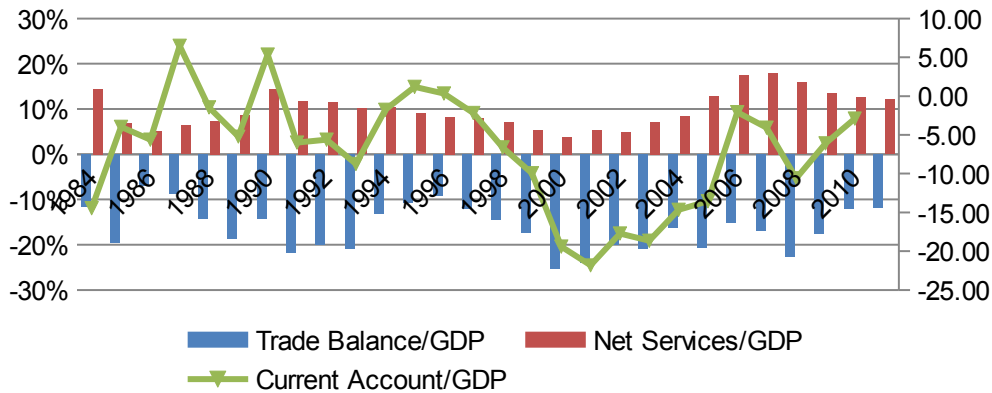
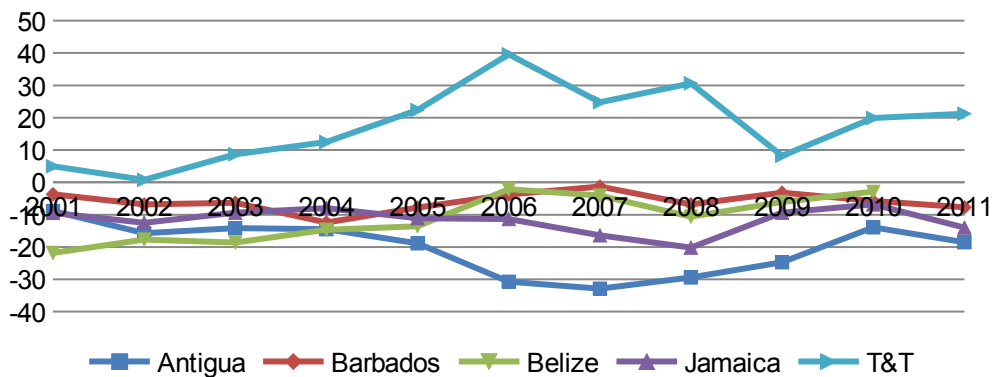


Figure 14B. Selected Current Account Balances (as a% of GDP)



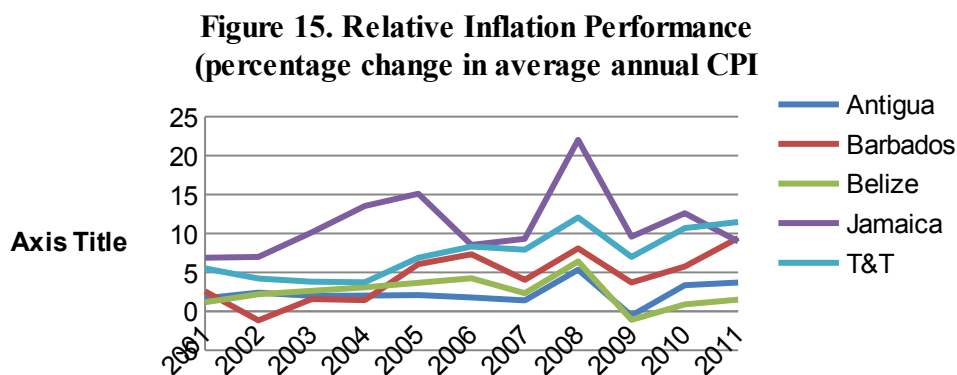
Source: IMF and Central Bank of Jamaica.

41 The rate of debt accumulation was remarkable with public external debt and external guaranteed debt more than doubling from 1999 to 2003.

42 See IMF. *Belize: 2008 Article IV Staff Report*, 2009.

in 2010.⁴³ Proposals for stimulating PSD need to take into account the concentration of exports to high-income countries and the vulnerability this imparts. Exports to Central America and Mexico appear to have considerable growth potential.

Belize’s competitiveness has improved based mainly on success in maintaining price stability in absolute and relative terms (Figure 15). In this regard, Belize’s competitiveness as measured by the real effective exchange rate has been maintained. In real effect terms, Belize’s currency has only recently appreciated, after a period of steady exchange rate depreciation.



Source: IMF.

Belize’s relatively low sovereign local and foreign currency ratings (Table 10) have increased the cost of debt financing for Belize.

Table 10. Ratings and Assessment

| Sovereign | Local Currency | Foreign Currency |
|---------------------|-----------------------|-------------------------|
| Barbados | BB+ | BB+ |
| Belize | CCC+ | SD |
| Grenada | CCC+ | CCC+ |
| Guatemala | BB+ | BB |
| Jamaica | B- | B- |
| Suriname | BB | BB |
| Trinidad and Tobago | A | A |
| Singapore | AAA | AAA |

Source: <http://www.standardandpoors.com/ratings/sovereigns/ratings-list/>

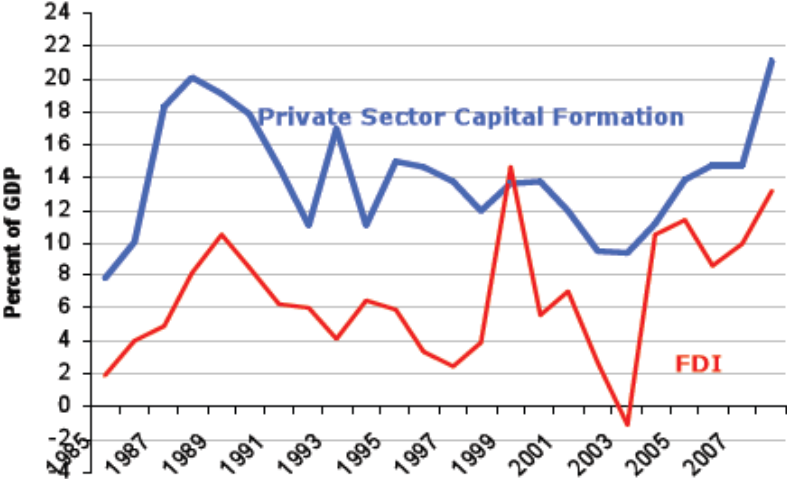
1.C.2.b

FOREIGN DIRECT INVESTMENT

⁴³ See Metzgen (2012), page 15.

Belize is open to foreign direct investment. Private capital formation has ranged between 10 and 16% of GDP between 1985 and 2008 on average (Figure 16) and represents a low share of gross capital formation as compared to other countries. Capital formation has also depended more on foreign direct investment than other countries in the region as well as in other developing countries.⁴⁴ Fixed investment peaked in the 1990 averaging about 26% of GDP in 1988-93, initially reflecting a private investment-led boom, and subsequently fuelled by surges in

Figure 16. Private Capital Formation and FDI, 1985-2008



Source: Rowland, Durante, and Martin, 2010, page 11.

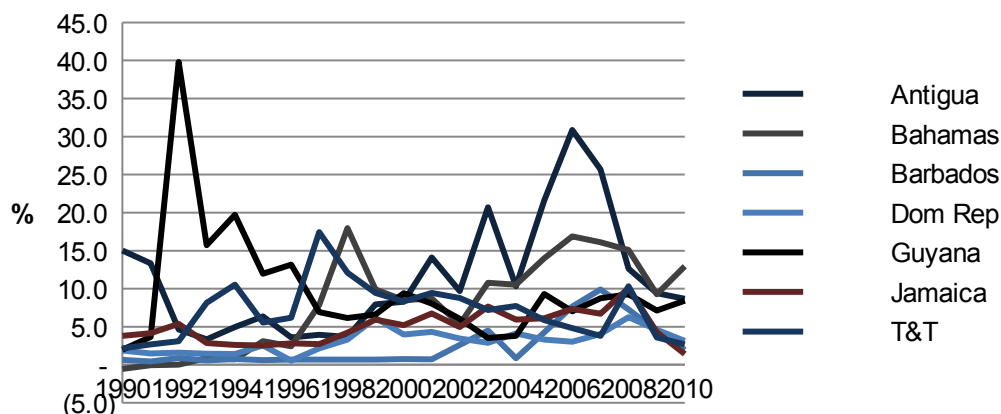
government investment and FDI. In 2005-2008, Belize was the leading recipient of FDI flows in real terms, in Central America⁴⁶ and on the average of flows to Caribbean states (Figure 17). In

Figure 17. FDI Flows to Selected Caribbean and Central American Peers (as a% of GDP)

44 Rowland, Durante and Martin. *Belize, A Private Sector Assessment*, 2010, pages 10 and 11.

45 In 2005-2007, FDI was equivalent to 46% of capital formation in Belize as compared with an average of 13% in Central America.

46 Idem.



2004-2008, FDI inflows increased rapidly, peaking in nominal terms at about US \$180 million, averaging US\$144 million per year. FDI flows peaked in real terms at 14.2% of GDP in 2004 and subsequently saw a material decline in nominal and real terms in 2009 through 2011, reflecting the global economic downturn and also a reaction to the nationalization of the telecommunications company, BTL (August 2009) and the electricity company BWEL (June 2011). FDI flows into Belize tend to be “large scale, relative to domestic investments, in capital intensive activities, and though not exclusively in foreign exchange earning activities.”⁴⁷ Regarding the composition of FDI flows in Belize the preponderant share (30% on average in 2001-2011) has been in hotels and restaurants, followed by financial services. Emerging areas for FDI appear to be real estate activities and mining and quarrying (Table 11). As noted FDI declined materially after 2008 as compared to a slight increase in FDI flows to Latin America.⁴⁸

Table 11. FDI Inflows by Sector

| | 2001 | 2003 | 2005 | 2007 | 2009 | 2011 |
|--|-------|-------|-------|-------|-------|-------|
| Agriculture, Hunting, Forestry & Fishing | 0.0% | 3.7% | 0.6% | 4.9% | 1.4% | 2.2% |
| Mining and Quarrying | 0.0% | 0.0% | 4.7% | 0.8% | 4.5% | 25.4% |
| Electricity, Gas and Water Supply | 40.5% | 11.9% | 15.0% | 3.1% | 4.3% | 0.0% |
| Trade and Repair | 4.9% | 6.2% | 1.7% | 1.0% | 0.7% | 0.0% |
| Hotels and Restaurants | 24.2% | 23.0% | 36.5% | 31.2% | 23.6% | 40.9% |
| Transport, Storage & Communications | 0.0% | 10.3% | 20.7% | 0.0% | 0.0% | 0.0% |
| Financial Intermediation | 21.7% | 28.9% | 12.0% | 19.9% | 20.4% | -2.0% |
| Real Estate Activities | 2.7% | 7.6% | 2.4% | 16.6% | 37.1% | 27.9% |
| Miscellaneous | 5.9% | 8.4% | 6.3% | 22.5% | 8.1% | 5.6% |

⁴⁷ Rowland, Durante and Martin. *Belize*, 2012, page 11. FDI flows to Belize are also large as compared to remittances which rose from 3% of GDP in 2002 to 5% in 2011.

⁴⁸ UNCTAD, *Global Investment Trends* No. 11, 23 January 2013.

Memo Items:

| | | | | | | |
|-------------------------------|---------|---------|---------|---------|---------|---------|
| Total FDI as a share of GDP | 7.0% | 4.2% | 14.2% | 11.8% | 8.3% | 6.8% |
| Total FDI (mns of US Dollars) | 61.2 | 41.9 | 157.8 | 150.3 | 112.5 | 98.4 |
| GDP in mns of Bze Dollars | 1,743.7 | 1,976.4 | 2,229.7 | 2,553.5 | 2,698.0 | 2,895.0 |

Source: CBB

That Belize has been able to attract FDI flows is a strong positive. However, in order for Belize to fully capture the benefits from FDI—transfer of technology, managerial skills and increased competition in domestic markets—there are requirements to facilitate its optimal absorption. These factors include strong institutions, developed financial markets and a certain level of skilled labour. On the downside as indicated in the Belize Growth Diagnostic for Belize⁴⁹, the high share of FDI in total private investment in Belize signals constraints to domestic investment that do not deter foreign investment flows. Moreover, the long term impact of the expropriations of BTL and BWEL which raised uncertainty concerning property rights protection and the enforcement of contracts in Belize are not yet clear and may not augur well for future FDI flows. As it stands, as of the first half of 2012, FDI flows registered about US\$53.7 million up 27% as compared to FDI inflows for the same period in 2011 signalling some restoration of confidence.

1.C.3 THE PRODUCTIVE STRUCTURE

This section examines the productive structure of Belize, focusing in greater depth, on industry, agriculture and services, with the objective of identifying large and fast-growing sectors. The analysis in this section is seriously constrained by data availability.

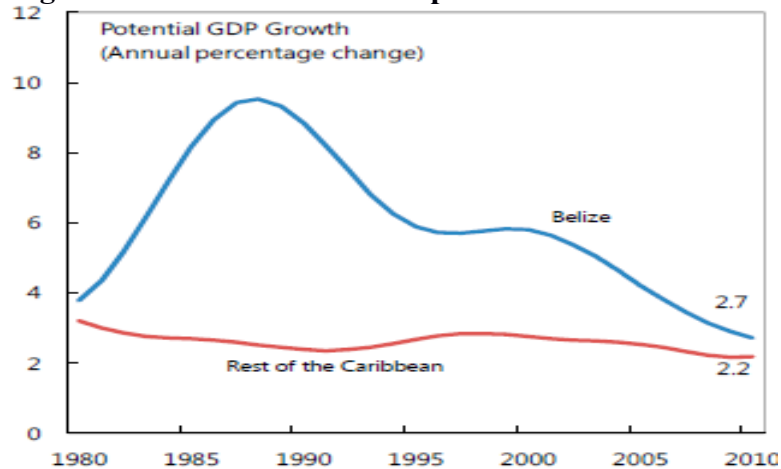
1.C.3.a INDUSTRY AND AGRICULTURE

Belize's productive structure and export base are squarely based on agriculture and tourism. In this regard, there is convincing evidence that Belize's monetary and exchange rate policies have been broadly supportive of export growth.⁵⁰ Belize's growth performance has been comparatively good over the last 30 years fuelled by its expanding external sector. However, potential output in Belize has been declining overtime, narrowing the initial wide gap in Belize's potential output as compared to Caribbean regional peers (Figure 18). Nevertheless, there appears to be a significant potential for expanding investment and increasing output and productivity in both of the agriculture and tourism sectors.⁵¹

49 Hausmann and Klinger, *Growth Diagnostic: Belize*, December 2007, IDB

50 Metzgen, Belize, *30 Year Restrospect and the Challenges Ahead*, 2012.

Figure 18. Belize Potential Output



Source: IMF, 2011 Article IV Staff Report, page 13.

Despite growth in the economy and export growth over recent years, two features of Belize’s export performance stand out as assessed in the report on a National Export Strategy (NES) for Belize⁵²: “(i) the export basket remains limited to a few products mainly of agricultural origin (e.g. bananas, citrus and citrus juices, papayas, sugar, beans and peas) and including some marine exports...; and (ii) export trade takes place largely under and is defined by preferential market arrangements involving the EU, USA, and Canada. Moreover, export productivity of manufactured products is heavily dependent on imported supplies.” The five initial sectors prioritized for action identified under the NES in 2006 were (1) agro processing; (2) aqua culture and fisheries; (3) environmental goods and services; (4) tourism; and (5) ICT.

Notwithstanding the NES objectives, Belize is producing and exporting a very narrow range of primary commodities and goods with low value-added content. In 2010, Belize’s top two merchandise exports were primary products—petroleum and bananas—representing 43% (US\$165 million) of total export value (Table 12). In comparison, in 1995, the top two export earners were sugar cane and fruit juices registering 38% of total merchandise imports (US\$98 million). There was some modest progress in diversification between 1995 and 2000 into the export of new and value-added goods such as frozen fish fillets, fruit juices, garments and crustaceans. However, the share of value added products in Belize’s exports has not changed materially since 1995. The share of the top 8 export products—mainly primarily products—in total merchandise exports at 81% went broadly unchanged between 1995 and 2010.⁵³ The revamping of the NES in consultation with stakeholders is an important step in stimulating diversification of growth of Belize’s exports.

51 Ibid, page 25.

52 *National Export Strategy, Belize, 2007-2010*, November 2006, page 6.

53 BTB, press release April 22, 2013.

Table 9. Top Exports 1
(%, and Millionos of

1995
Raw sugar, cane
Fruit juices

The export free zone (EFZ)-sector in Belize is a relatively new feature of Belize's industrial and export structure. The EFZ concept is to provide job creation in the Belizean economy, attract national and foreign investors and generate revenue for Government. The establishment of the Corozal Free Zone (CFZ) was to develop trade in retail and wholesale of merchandise, as well as light manufacturing. The CFZ 's contribution to GDP is estimated at 16% and visitor arrival numbers are estimated at 2.5 million well exceeding tourism visitor arrivals at just under 1million in 2012.⁵⁴ These exports are comprised mainly of wine, spirits, tobacco and food products manufactured abroad. However, under the legislation establishing EFZs in Belize⁵⁵, the (300) companies that operate in the zone receive import and export duty exemptions, fiscal incentives and tax holidays, dividends are exempted from taxes and there are no trade licensing requirements as there are for domestic companies. Given the sector's high exemption status, a full assessment of the *net contribution* of the CFZ to Belize's output and employment is important. The opportunity to re-examine Belize's incentive program is imminent given that Belize has until 2013 under WTO rules to eliminate export bias."⁵⁶ More generally, the harmonization of Belize's Fiscal Incentive and CFZ/EPZ programmes in consultation with line ministries, departments and private stakeholders is an important short run action for the agenda.

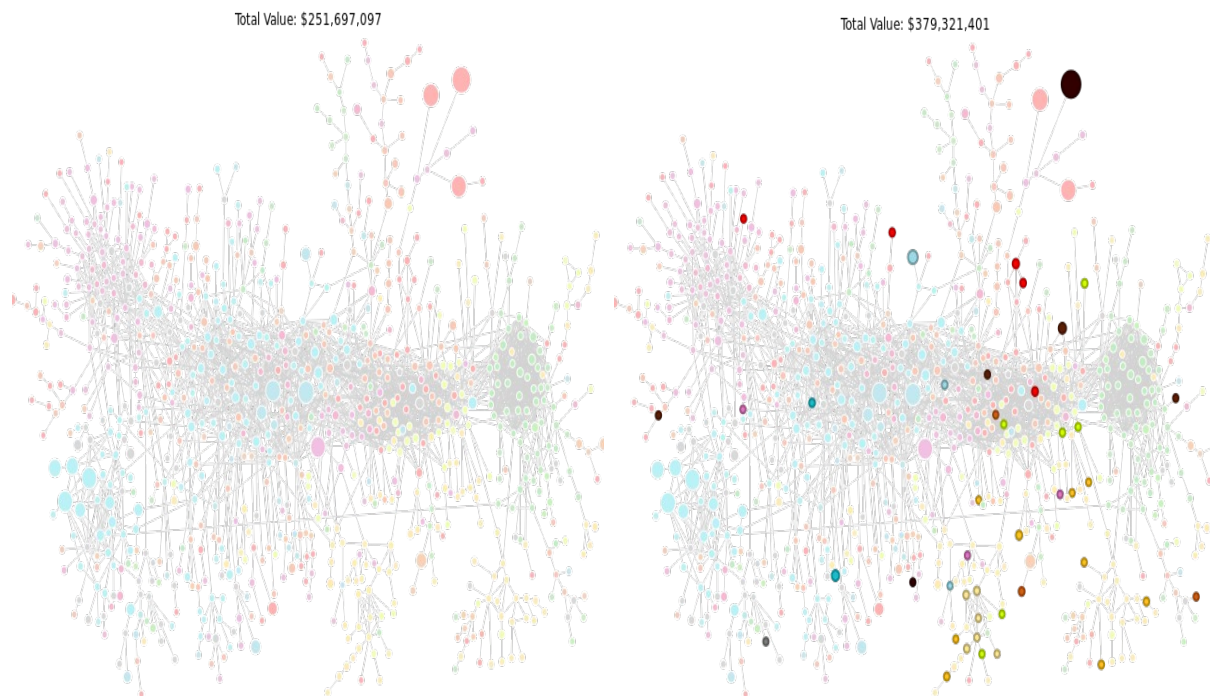
54 This is the assessment of the stakeholders and BBB.

55 *Export Processing Zone Act*, Chapter 2000, Revised Edition, December 2000.

56 *Action Plan in Accordance with WTO Decision*, Directorate for Foreign Trade, page 20. The absolute deadline is 2015.

Figures 19A and 19B present the product space for Belize for 2010 and 1995. These figures confirm the assessment that Belize faces challenges ahead in diversifying its export basket into higher value added and more economically complex activities.⁵⁷

Figure 19. Product Space Map for Belize, 2010 and 1995



Source: http://atlas.media.mit.edu/explore/product_space/export/bze/all/show/2010/

- In Figure 19, although the value of merchandise exports has increased there is a striking and undeniable similarity in the product space in 2010 as compared to 1995 notwithstanding a 15-year gap.
- There have been only modest developments in product space. The connecting lines between the dots indicate that these products are likely to be exported together, and the dots that are shaped as squares are those that have a revealed comparative advantage.

⁵⁷ Note that an economic complexity index for Belize is not available as countries with populations of less than 1.2 million people or less than US\$1 billion in exports of goods are excluded and therefore Belize and many Caribbean economies are excluded.

Based on a product space analysis for Belize the year 2000, the 2008 Growth Diagnostic for Belize (Klinger and Hausmann) compiled a list of “low hanging fruit”, that is areas into which production could shift. These are areas that are close to current production and are products not yet exported with comparative advantages.

- The low hanging fruit in Belize (Table 13) is identified to be in the agricultural sector: non-traditional agriculture, forest products, and mariculture. These areas are desirable not only because they can leverage on the existing sector but also because they represent opportunities to move into more sophisticated production activities with growth enhancing implications for the export basket.
- As also noted by Hausmann and Klinger, this list is consistent with the priority sectors identified in Horizon 2030 as strategic sectors and also in the Belize Chamber of Commerce and Industry’s investment guide.⁵⁸
- Given data constraints, the product space analysis unfortunately focuses only on merchandise exports and does not incorporate services such as tourism, financial intermediation, and call centers—recent successes in Belize.

The diversity of Belize’s exports can also be gleaned by looking at the diversity and average ubiquity indices for the country (Figure 20). The diversity index measures the number of products for which a country has a revealed comparative advantage (RCA) in 1990-2009. Figure 21 from the Competitiveness Forum, shows that over the period, on average, 15% of Belize’s export products had an RCA >1.⁵⁹ This is significantly lower than measures for most comparator countries. The average ubiquity index measures the extent to which the exports of a country are unique: the higher the value, the less unique a country’s exports (i.e. many other countries also export this good). Belize tends to export goods that many other countries export and accordingly Belize has the second highest ubiquity index relative to comparator countries.

58 Hausmann and Klinger, pages 37- 40.

59 The RCA index is defined as the ratio of two shares. The numerator is the share of a country’s total exports of the commodity of interest in its total exports. The denominator is share of world exports of the same commodity in total world exports. The higher the RCA the greater the comparative advantage in producing the good. For instance, Belize has an RCA of 3.15 for crude petroleum products and of .10 for refined petroleum exports.

Table 13. Belize “Low Hanging Fruit”

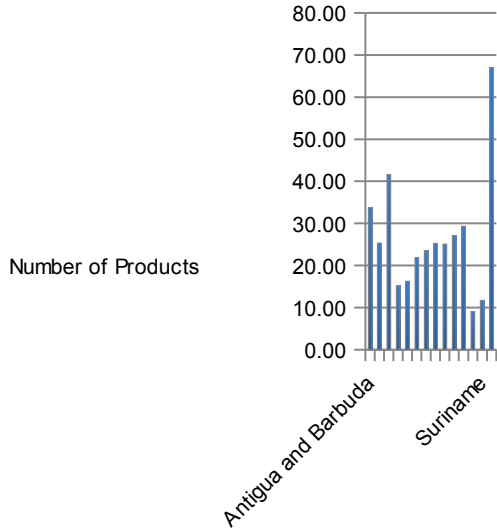
| Product Code | Product Name | Exports (US M) | World Market (US B) | PRODY (PPP) | Density |
|--------------|---|----------------|---------------------|-------------|---------|
| 1801 | Cocoa beans, whole or broken, raw o | 0.03 | 1.03 | 2243 | 0.058 |
| 1207 | Other oil seeds and oleaginous frui | 0.07 | 1.14 | 3030 | 0.054 |
| 304 | Fish fillets and other fish meat, f | 0.60 | 10.96 | 13627 | 0.054 |
| 4407 | Wood sawn or chipped lengthwise, sl | 1.00 | 29.29 | 13218 | 0.049 |
| 305 | Fish, salted, dried...; smoked fish; fi | 0.00 | 3.41 | 21799 | 0.048 |
| 714 | Roots and tubers with high starch c | 0.00 | 0.65 | 6124 | 0.048 |
| 1704 | Sugar confectionery (incl. white ch | 0.14 | 6.07 | 10513 | 0.048 |
| 3401 | Soap; organic surface-active produc | 0.00 | 3.95 | 5570 | 0.047 |
| 804 | Dates, figs, pineapples...etc, fres | 0.00 | 3.05 | 6692 | 0.046 |
| 302 | Fish, fresh or chilled (excl. those | 0.00 | 8.11 | 12231 | 0.046 |
| 709 | Other vegetables, fresh or chilled | 0.12 | 7.00 | 10274 | 0.046 |
| 2302 | Brans, sharps and other residues, d | 0.02 | 0.51 | 6508 | 0.046 |
| 1604 | Prepared or preserved fish; caviar | 0.00 | 7.91 | 8581 | 0.045 |
| 904 | Pepper of the genus Piper, Capiscum | 0.00 | 0.93 | 5924 | 0.045 |
| 508 | Coral; shells of molluscs, crustace | 0.12 | 0.09 | 11269 | 0.045 |
| 6305 | Sacks and bags, used for packing go | 0.00 | 2.02 | 7260 | 0.045 |
| 2301 | Flours, etc, of meat, fish, etc, un | | 2.94 | 15027 | 0.045 |
| 106 | Other live animals, nes | 0.00 | 0.54 | 9384 | 0.044 |
| 1511 | Palm oil and its fractions | | 9.27 | 5323 | 0.044 |
| 901 | Coffee; coffee husks and skins; cof | 0.00 | 10.57 | 2814 | 0.044 |
| 1101 | Wheat or meslin flour | 0.00 | 2.02 | 5652 | 0.043 |
| 307 | Molluscs & aquatic invertebrates, ne | 0.00 | 5.49 | 7883 | 0.043 |
| 402 | Milk and cream, concentrated or swe | 0.00 | 10.40 | 13162 | 0.043 |
| 711 | Vegetables provisionally preserved, | 0.04 | 0.44 | 3106 | 0.042 |
| 4409 | Wood, continuously shaped along any | 0.18 | 4.37 | 12601 | 0.042 |

Source: Hausmann and Klinger, page 37.

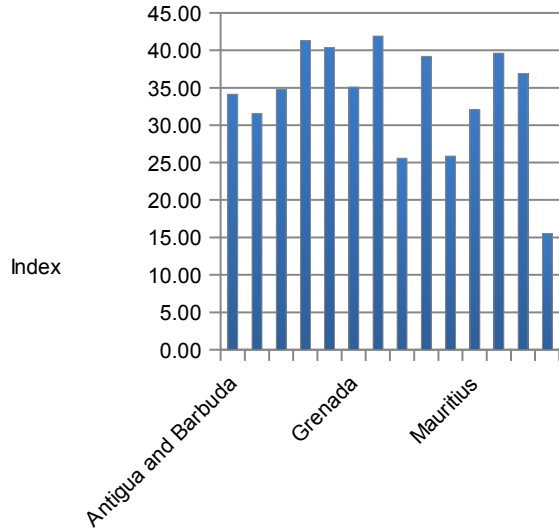
This analysis suggests that Belize has an export basket that is unsophisticated and poorly diversified. It consists of products that are highly ubiquitous, meaning, products that are not complex. In comparison, advanced countries are characterized by diversified export baskets with low average ubiquity products. In this sense, Belize’s export basket presents important challenges and the NES validation process underway will provide an overarching framework for export development and should result in specific recommendations for the expansion of Belize’s productive and export capacity. Consultations with stakeholders in the context of this PSAR suggest continued support for most of originally identified “prioritized” sectors. Rationalization of the fiscal and export incentive regimes will be an important step.

Figure 20. Diversity and Average Ubiquity for the Caribbean

Diversity



Ubiquity

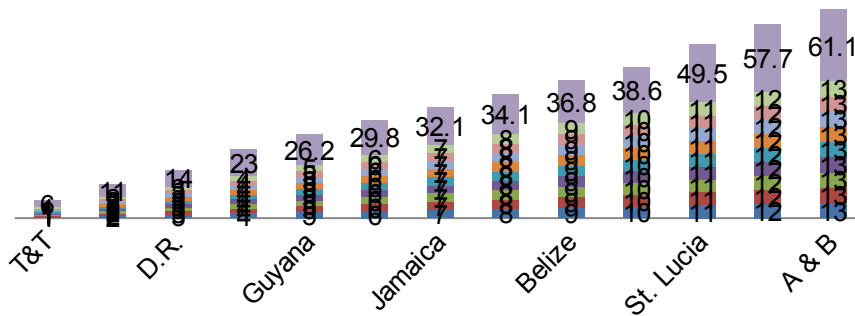


1.C.3b.

SERVICES

As noted, the Belizean economy is dominated by the services sector, and in particular the tourism sector which contributes significantly to GDP and employment (Figure 21). Total trade

Figure 21. Trade in Services, 2010 (share of GDP)

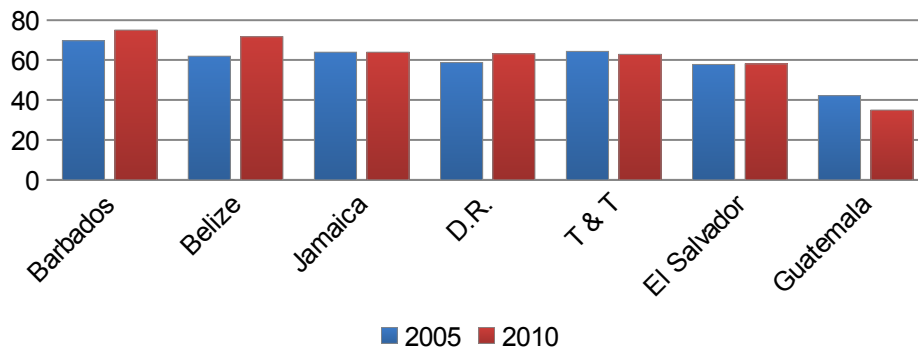


Source: World Development Indicators.

in services represented more than US \$500 million or 37% of Belize’s GDP in 2010 a materially higher share of GDP as compared to most Central American and Caribbean comparator countries (see Figure 21).

Total trade in services also contributed about 62% of employment in Belize in 2005 and 2010 (Figure 22). These outcomes compare with lower contributions to employment from services in neighbouring Central American countries and slightly lower contributions to employment in Caribbean comparators.

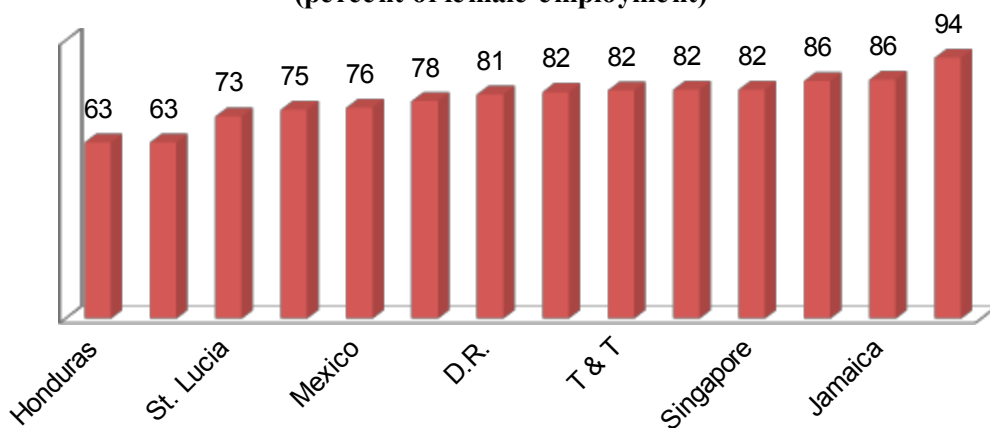
Figure 22. Employment in Services, 2005 & 2010
(% of total employment)



Source: World Development Indicators and CIA Factbook (2010).

It is noteworthy that employment in Belize’s services sector accounted for 86% of female employment in Belize as compared to 49.7% of male employment. This observation is consistent with the evidence in employment of women in other Central American and Caribbean countries (Figure 23). This suggests that expansion of the services sector should provide increasing opportunities for women in Belize.

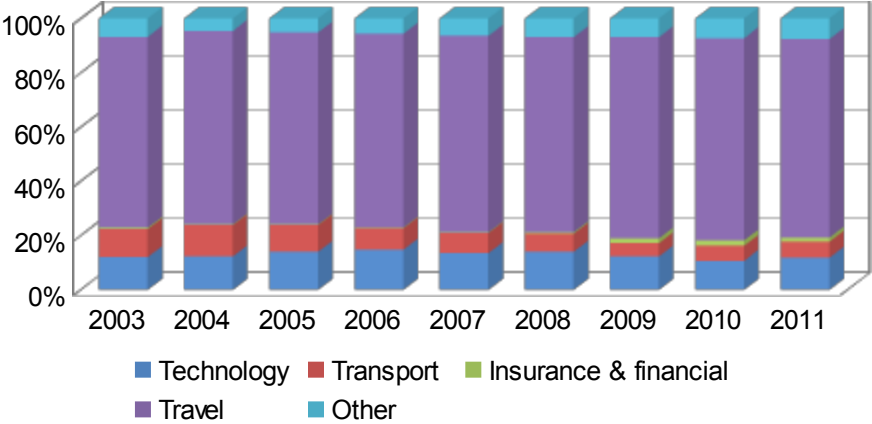
Figure 23. Female Employment in Services, 2005
(percent of female employment)



Source: World Development Indicators.

The available data show that the tourism sector continues to account for the preponderant share of total services exports rising from 2003 to 2010 and averaging more than 70% of total in 2003-2011 (Figure 24). Technology services, comprising, computer and communications services, represented the second largest share of total services exports peaking at 14.6% of total in 2006

Figure 24. Composition of Services Exports



Source: World Development Indicators.

before declining to about 11.7% in 2011. This sector was unambiguously identified by private and public sector stakeholders alike as one of the sectors that should be a priority for Belize’s economy going forward.

Other services subsectors which are not readily identified but which are important to the Belizean economy include business services—in particular accounting and legal services; environmental services, transportation services (land and maritime), recreational services (in particular those provided as part of the overall tourism experience), architectural and engineering services, construction and related services, and distribution services.⁶⁰ Transport services averaged almost 11% of total service exports from 2003-2005 then declined to 6% of total by 2011. Insurance and financial services which represented only 0.3% of total in the early 2000s then rose to that average 1.6% of total export services in 2009-2011. The financial services sector was also identified by stakeholders during consultations as an emerging sector worthy of promotion.

Belize is not a significant player in the services market at present. However, the country has several advantages that it can use to leverage its advantages to improve its competitiveness in this market to increase exports and FDI. These advantages include proximity to large service markets (US, Canada and Mexico), good (though costly) flight interconnectivity, English speaking population in a predominantly Spanish speaking region, and basic services and membership in regional trading arrangements. The survey and analysis financed by the

⁶⁰ The Commonwealth Secretariat, *Enhancing the Export of Professional Services from Belize*, 2011.

Commonwealth Secretariat on enhancing Belize’s service sector revealed that in the short to medium term, opportunities exist in Real Estate, ICT/IT Enabled Services, Healthcare travel, educational and culture-related tourism services.

CHAPTER 2. THE STATE OF THE PRIVATE SECTOR

Belize is a mixed economy with a large private sector. While there is a reasonable database on the public sector since 1990, there is a dearth of comprehensive information and time series data on Belize’s private sector. Available information including discussions with stakeholders suggest that the major market failures in Belize can be summarized as follows:

- Productive and allocative inefficiencies arising from Belize’s small population and domestic market thwarting economies of scale and scope.
- Oligopolistic market structures—particularly in the banking sector with negative implications for the pricing of loans and financial services, the provision of services and entry of new participants into these markets. In addition, legislation constrains Belizeans from borrowing in foreign currency leading to a financing advantage for foreign nationals who can borrow in domestic and foreign currency inhibiting the development of a strong local business and investment base.
- Inefficiencies in public services delivery including failures in assigning property rights particularly with respect to real estate.
- Missing markets for infrastructure such as roads and electricity, for education and skill-based training consistent with the needs of fast growing and emerging sectors and for research and development thwarting innovation.
- Income inequality with economic rewards concentrated in the hands of a few and limited social safety nets spurring crime with negative implications for growth and social justice.

Against this backdrop, this chapter provides an overview of the private sector including important topics such as the contribution of the private sector to employment and output, the role of large, medium, small and micro businesses in the sector and the institutional framework in support of PSD. The chapter also describes the overall business environment, identifies the large and fast growing sectors in Belize and ends by discussing issues for PSD.

2.A.1 ASSESSING THE SIZE OF THE PRIVATE SECTOR

An IDB financed study in 2010, *Belize: A Private Sector Assessment*⁶¹ is the first comprehensive and detailed account of the private sector in Belize. The report also provides an assessment of private sector needs, and makes recommendations on actions to be taken. There is also a more recent study commissioned by the Belize Chamber of Commerce and Industry (BCCI), *Investments in Belize: A Strategy for Innovation, Competitiveness, Entrepreneurship and Private*

61 Rowland, Durant, and Martin, 2010.

Sector Development that⁶² focuses on propelling Belize to an innovative-driven economy. This latter report argues for policy adjustments for consideration by the Government of Belize and the creation of a National Production Development Policy. This paper is important because it suggests reforms and highlights sectors for improvement from the perspective of the “organized private sector.”⁶³ This discussion on the state of the private sector necessarily draws on these important papers.

The Government of Belize controls the water, electricity and sewerage utilities but public enterprise sector is limited.⁶⁴ A state-owned development bank has generally had a modest role compared with private sector commercial banks, with the exception of the period from 1998 to 2004. A new and controversial quasi public sector bank was created in early 2013—The Belize Infrastructure Ltd. (BIL)—to carry out infrastructure projects.⁶⁵ Moreover, the Government has on its agenda the establishment of a state bank—National Bank of Belize funded—in part by Belize’s Social Security Board (SSB) aimed at serving as a vehicle for Government subsidized residential mortgages for low and middle income individuals, in particular public servants and teachers.⁶⁶ As is common in the Caribbean, the state is a major landowner.

Assessing the size of Belize’s private sector is important in evaluating its current and potential contribution to the overall economy. The size of the private sector can be measured in different ways including by its shares of total consumption and investments, total credit, and or employment. In this regard, the size of Belize’s private sector is large by most conventional measures. It is assessed to be “roughly two-thirds of the economy” based on the shares of government expenditure and revenue in GDP. This places Belize’s private sector of a magnitude larger than that in most Caribbean countries and smaller than that of most Central American countries (Table 14). In comparison, in the European Union public expenditure averaged 46% of GDP in 2002-2007 though this includes social safety net spending equivalent to 20% of GDP.⁶⁷

Table 14. Public Sector Expenditure,

62 BCCI, *Investments in Belize: A Strategy for Innovation, Competitiveness, Entrepreneurship and Private Sector Development*, going forward referred to as the “BCCI White Paper.”

63 The BCCI “White Paper” relies on consultations with private sector stakeholders.

64 Rowland, Durante and Martin, 2010.

65 The articles of association show that senior officials are shareholders and directors on the BIL board.

66 See National Bank of Belize Underway, *Amandala Newspaper*, May 23, 2013.

67 Belize does not allocate a portion of the budget to social safety net spending. The spending of the SSB, providing for compensation for on the job injuries and pensions, is about 3% of GDP.

Belize and Peers, 2011
(% of GDP)

| | |
|---------------|------------------|
| Guyana | 48. 6 |
| Dominica | 42. 5 |
| Barbados | 41. 3 |
| Jamaica | 34. 3 |
| T & T | 28. 4 |
| Belize | 28. 2 |
| Costa Rica | 20. 9 |
| El Salvador | 20. 0 |
| D.R. | 19. 1 |
| Guatemala | 13. 7 |

Source: IMF.

This assessment provides an important baseline and is broadly consistent with national income accounts data, though these and data on the share of credit to the private sector in total credit suggest that the size of the private sector of Belize might actually be somewhat larger (Figure 24).⁶⁸ In Belize, general government (central government plus the Social Security Board) revenues and expenditures (current and capital) were equivalent to slightly less than one-third in 2011.⁶⁹ Moreover, the private sector's share of consumption averaged about 82% of GDP from 2004 to 2011. Government's share of consumption has hovered at about 20% of GDP and Government's share of total credit is about the same.

In Belize, the private sector's share of total credit tends to exceed two-thirds of total (see Figure 25). Evidence suggests that crowding out of private sector activity is not a major problem in Belize. Domestic credit to the private sector has averaged about 66% of GDP in 2003-2011 though it has been declining. This average is high as compared to most Caribbean peers (except Antigua and Barbuda and Barbados). The excess liquidity in Belize's banking system suggests

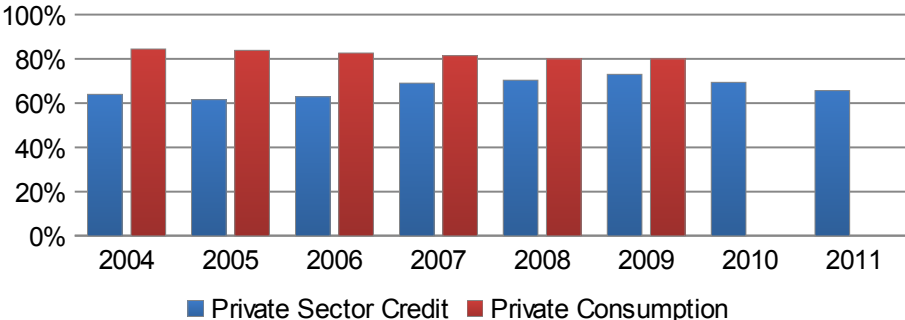
68 Private investment has averaged 20% of GDP in 2000-2008 and private consumption 84% of GDP.

69 IMF, 2011 Article IV Staff Report. Page 27.

that the formal private sector in Belize is not constrained by credit that in turn may suggest risk aversion. Moreover, as discussed earlier, private foreign investors in Belize have had access to credit through international channels also suggesting that this segment of the private sector has not been overly constrained at current interest rates.

In terms of the private sector’s contribution to employment, there is not a breakdown in the official labor market statistics between public and private employment. Moreover, there is a series break in the labor force employment numbers between 2008 and 2011. Nevertheless, a

Figure 25. The Private Sector Share in Total Credit and Total Consumption



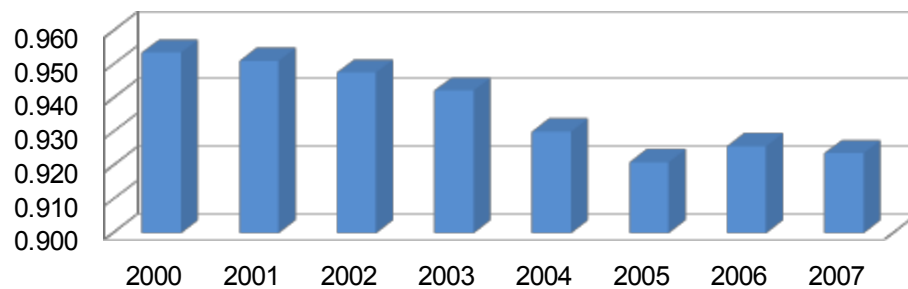
Source: IMF and World Bank World Development Indicators

back of the envelop calculation based on government employment data⁷⁰ and data on the total labor force published by the Statistical Institute of Belize’s (SIB) suggest that the private sector has employed 94% of the work force on average in 2000-2007 (Figure 26).⁷¹ This share declined to 92% in 2011 reflecting an increase in public sector hiring: the annual average rate of growth

⁷⁰ Metzgen, *Belize: Government Compensation and Employment, 1990-2010*, IDB Study, December 2011.

⁷¹ The SIB’s 2010 Census did not provide/publish labour force and employment statistics.

**Figure 26. Private Sector Employment
(share of total employment)**



Source: Ministry of Finance and SIB.

in public sector employment was about 17% in 2000-2011 while the growth in the employed labor force was only about 4% for the same period. To the extent that employment in the informal private sector is not captured in the SIB statistics the contribution of the private sector to employment in Belize is understated. In comparison, in Jamaica, it is estimated that 90% of the labour force is employed by the private sector of which 83% works in the micro, small and medium-sized enterprise (MSME) sector.⁷²

2.A.2 PRIVATE SECTOR ENTERPRISES AND THE ROLE OF MSMEs

The relatively large participation of the private sector in employment is consistent with the significant number of businesses in Belize and in general the entrepreneurial activities of the population.⁷³ Nevertheless, there does appear to be a cultural bias in favour of government employment and some stigma attached to small scale entrepreneurial activities.⁷⁴ An actual count of the number of businesses in Belize is thwarted by the lack of information, in part due to a large informal sector as well as no legal requirement for financial disclosure in Belize. However, most assessments point to a small number of large and medium sized businesses and a very large representation of micro, small and medium (MSM)-sized enterprises in the private sector using several definitions of the size of business. For instance, data from Belize's Social Security Board (SSB) for 2008 indicates the number of active businesses in Belize at 10,641 of which 99% are small businesses based on the SSB's definition (businesses employing less than 199 staff). Available information provided by the Government of Belize⁷⁵ indicates that there are 485 registered businesses in Belize. This is in line with the count of the membership of the Belize Chamber of Commerce and Industry (BCCI) in 2012 (300 members), whose membership tends

⁷² Tennett, Jamaica, PSAR, pages 34-35.

⁷³ The Global Entrepreneurial Monitor does not cover Belize.

⁷⁴ Seepersaud, Michael. *Belize MSME Policy and Strategy Report*, March 2012.

⁷⁵ See Belize Business Registry.

to be the larger businesses in Belize.⁷⁶ Moreover, the Ministry of Agriculture and Fisheries estimates that there are 19,500 farmers of whom 11,000 are small and medium sized and the remaining 44% are operating at the micro or subsistence level.⁷⁷

MSMEs are a fundamental part of a dynamic and healthy economy particularly in countries like Belize. As concerns the contribution of the micro, small and medium-sized enterprise (MSME) sectors in Belize, a study published by the Inter-American Development Bank (IDB) in 2001 estimated the number of micro and small businesses at 17,000 contributing 45% of GDP and 32% of total employment. Most recently, the 2012 report outlining a policy for Belize's Micro, Small and Medium Enterprises (MSMEs) indicates that Belize is an economy comprising mainly MSMEs and estimates that "MSMEs generate over 70% of private sector employment and incomes and contribute significantly to GDP."⁷⁸ In terms of output, it is estimated that MSMEs account for over 70% of main export crops and an even higher percentage of domestic food crops.⁷⁹

It is within this spectrum that the Government of Belize has strengthened its focus on supporting the development of the MSME Sector supported by CARICOM Secretariat and the CDF. In this regard, a recent initiative under the administration of BELTRAIDE is the Small Business Development Initiative which aims at establishing Small Business Development Centers (SBDCs) as one-stop-shops for small businesses and entrepreneurs to support their activities. This includes counselling on all nine aspects of establishing a business in Belize (Box 2) and also providing information on legal requirements and access to financing. The plans are to establish seven SBDCs. The first SBD was established in Belize City and financed by GOB; the second SBDC is targeted for Orange Walk although the intention is for a private-public effort.

Box 2. Registration and Other Procedures to Start a Business in Belize

⁷⁶ Many micro and small business owners see the registration requirements for a business as cumbersome and expensive and the BCCI's annual membership fee as prohibitive.

⁷⁷ Seepersaud, Michael. Belize MSME Policy and Strategy Report, March 2012, page 1.

⁷⁸ Ibid., page 10.

⁷⁹ BELTRAIDE

1. Conduct a name search at the Companies' Registry
2. Register company statutes and memorandum and articles of association at the Companies' Registry
3. Submit application to City Council for a trade license
4. Receive inspection from City Council inspector (20 days)
5. Pay for the trade license at the City Council
6. Make a company seal
7. Register the company for business tax at the income tax department (12 days)
8. Register the company for general sales tax (GST) at the GST office (20 days)
9. Register the employees with the Social Security Board

Source: Rowland, Durante, and Martin (2010), page 41.

As noted, notwithstanding the entrepreneurial activities of the general population in Belize there are cultural and educational blocks to entrepreneurial development, a negative stigma attached to MSMEs and work in the agricultural sector and a general bias toward public sector employment. These are a legacy of colonialism. In this regard, institutional fragmentation and exclusion of MSMEs from incentives and concessions is a material obstacle to the sector and efforts are underway aimed at addressing these issues given that MSEs offer significant employment for Belize's economy and are also a potential channel for addressing poverty. This is because MSEs are a key source of employment for the most vulnerable segments of Belize's society—particular women, youth and the rural poor.⁸⁰

There is not yet an agreed definition of MSME's in Belize. There are several initiatives underway aimed at defining MSMEs. In this regard, a recent report aimed at crafting a policy and strategy for MSMEs is under consideration⁸¹ and recommends that Belize adopt the basic formula of the CARICOM harmonized standard "Good Management Practices for MSMEs" (CRS 14 2010) based on the MSME consultations held, existing definitional frameworks in Belize, regional and international benchmarks and a study of the existing literature. The recommended parameters proposed in the draft legislation for MSMEs are as follows:

- **Micro-sized enterprise:** owner managed with fewer than 5 full-time employees or less than \$50,000 investment in equipment; or less than \$100,000 in annual sales.
- **Small-sized enterprise:** fewer than 20 full-time employees or less than 371.612 m² (4004 square feet) of manufacturing area; and less than \$150,000 investment in equipment or less than \$500,000 annual sales.
- **Medium-sized enterprise:** 20 to 50 full-time employees or 371. 612 m² to 557.418 m² feet of manufacturing area; or \$150,000 to \$500,000 in investment in equipment or

⁸⁰ Idem.

⁸¹ The Commonwealth Secretariat at the request of BELTRAIDE has financed a study on a MSMEs and the report prepared by Michael Seepersaud and finalized in March 2012 is titled *Belize MSME Policy and Strategy Report*.

\$500,000 to \$1.5 million annual sales.

The legislation also proposes BETRAIDE as the central agency relevant for MSME issues. In addition, Belize currently holds the presidency of the Regional Centre for the Promotion of Micro and Small Enterprises in Central America and the Dominican Republic (CENPROMYPE)⁸² and is attempting to harmonize definitions of MSMEs in the region.

There are no disaggregated data on the percentage of the working labour force employed by different sized businesses operating in the private sector. However, the information that is available on the contribution of MSMEs to low-income countries and to the Caribbean region suggests that the sector's contribution to Belize's economy is large.⁸³ An earlier ILO study covering several Caribbean countries including Belize, Guyana, Jamaica and Trinidad and Tobago pointed out that MSMEs make a significant contribution to income growth and job creation in these countries. The report went on to indicate that a vibrant MSME sector means a more equitable distribution of wealth, greater development of skills, better utilization of resources and the development of appropriate technology. The sector has the potential for creating backward and forward economic linkages and enhancing social conditions.

A survey of 100 respondents and MSME consultations undertaken in the context of the 2012 MSME report,⁸⁴ identified the following priority issues for the sector:

1. Access and cost of financing
2. Markets and marketing
3. High cost of doing business
4. Business support services including education and training and technical assistance
5. Availability and cost of raw materials
6. Government bureaucracy, regulations, legislation and support/incentives
7. Crime, corruption and political interference.

Agreement on definitions of MSMEs for Belize tailored to the main characteristics of Belize's private sector would be an important step in crafting a policy for MSMEs. This effort will need to take into account the initiative in the tourism sector to agree on classification systems. In this regard, it is also important to note that currently Belize is developing classification systems for hotels, tour operators and tour guides aimed at enhancing the tourism sectors' standards to meet regional and international standards demands.⁸⁵ Agreement on these important definitions will

82The project led by CENPROMYPE on harmonization in the production of statistics for MSMEs is supported by the IDB.

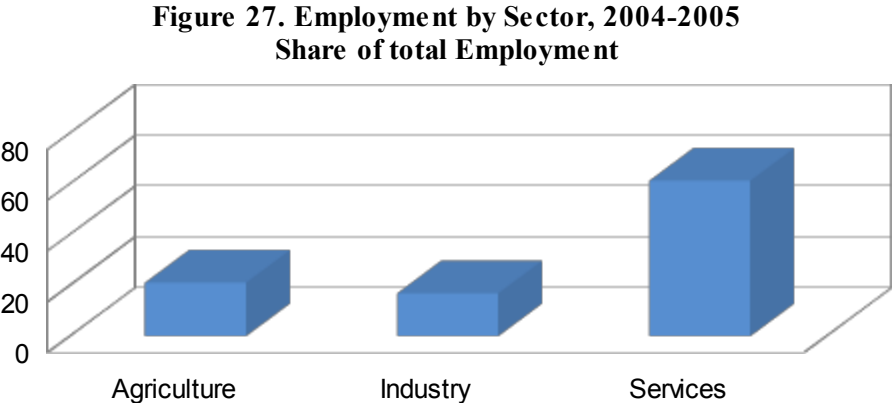
83 Seepersaud, Michael, *SME Policy and Legislation Study*, ILO, 1995.

84 Ibid., page .

85 Ministry of Tourism and Culture, Response Paper, Belize Chamber of Commerce and Industry *Investment in Belize: A Strategy for Innovation, Competitiveness, Entrepreneurship and Private Sector Development*, September 28, 2012.

allow progress in agreeing on the best policies and means of supporting employment and production of MSMEs. This, in turn, will help to bolster the private sector’s contribution to the economy.

Concerning the distribution of employment in Belize across sub-sectors, the aggregate data available provide a snapshot (Figure 27). This snapshot shows that more than 60%



Source: World Development Indicators.

of the working labour force was employed in the services sector in 2005. There are no disaggregated data on the distribution by economic activity and by public and private sector. However, given the weight of the tourism sector in total services and the share of private sector employment in overall employment, the breakdown above for total employment is indicative of the distribution of private sector employment across economic activities.

There are no data on the share of the economy of the largest firms except as a residual based on the information provided above. The lack of an official disclosure requirement for businesses means that there is limited information available on companies as annual (audited) financial statements are not publically available as they are in other countries. There was previously a legal requirement that businesses in Belize provide annual audited financial statements. However, with the change in the base for business tax from net to gross sales this requirement was dropped when the law was amended. Several interviewees indicated the preference to have limited access to finance and or to pay higher rates rather than to disclose financial statements. This lack of disclosure, in turn, no doubt has had negative implications for risk assessment and the cost of finance in Belize as well as confounds identification of investment opportunities.

In summary, an assessment of the size and contribution of the private sector is thwarted by data availability. A return to a legal requirement to provide financial statements would support transparency and credit risk assessments and help provide information on firms operating in the private sector. Notwithstanding the weak statistical data base, it is clear that by most measures the private sector of Belize is large in absolute and relative terms and accounts for the bulk of employment, credit, and consumption. The available data also suggest that the private sector is

dominated by MSMEs including in the tourism sector that accounts for the bulk of employment and value added in the economy. Thus a policy and accompanying action plan for MSMEs is important for increasing production and exports. The analysis above suggests that systematic public-private collaboration in the context of an agreed strategy supporting key traditional and emerging sectors including by building the statistical database is the sine non qua of a successful path ahead for Belize.

2.B THE INSTITUTIONAL FRAMEWORK RELEVANT TO PSD

Institutions provide the underpinnings of an economy by providing an economic policy framework that is characterized by its stability, continuity and predictability. This involves a stable political environment with peaceful transitions of government, establishing the rules of property rights and contract enforcement; improving coordination; restricting coercive, fraudulent, and anti-competitive behaviour—providing access ‘to opportunities for the broad population; constraining the power of elites; and managing conflict more generally. Moreover, institutions include social insurance and the provision of predictable macroeconomic stability. Countries with higher incomes can afford better institutions, so it is challenging to identify the impact of institutions on income. This section provides information on Belize’s political system and also an inventory of the institutional structure potentially supporting PSD.

Since gaining independence from the United Kingdom on September 21, 1981, Belize has experienced peaceful and democratic transitions, with power alternating between two major parties, the United Democratic Party (UDP) and the People’s United Party (PUP). The government of Belize is today a parliamentary representative democratic monarchy based on the Westminster model, whose current leader is Chief Executive Dean Barrow, of the reigning UDP party. The Prime Minister, the chief executive in Belize, typically has a term length of five years. Belize’s legislature has 31 seats and the last legislative elections took place in 2008. The National Assembly of Belize is a bi-cameral body which consists of a House of Representatives and a Senate. The 31 members of the House of Representatives are popularly elected to a maximum five-year term of office.

Belize has a unique cultural heritage as well, owing to its strong ties to the English-speaking Caribbean, and geographic ties to Spanish speaking Central America, which have strengthened substantially over the last 20 years due to immigration from neighbouring countries, especially Guatemala, and trade links with Guatemala and Mexico. Since Belize achieved full independence in 1981, it has largely experienced peaceful and stable democracy. However a long-standing territorial dispute with its neighbour Guatemala has not yet been resolved. In December 2008, both countries agreed to refer the dispute to the International Court of Justice (ICJ), requiring referenda in both Belize and Guatemala which to date has not been carried out.

Belize’s strong democratic traditions and institutions are enshrined in the law. However, there is a widespread perception—including among public and private sector stakeholders alike—that lack of implementation is a critical issue. Within the last decade increasingly poor rule of law and a steadily mounting crime rate have posed problems for the business environment and more generally for the society at large. Moreover, institutional failures in Belize are mainly related to time-inconsistency of the institutional and policy frameworks along with coordination failures as

well as result from institutional responsibilities and policies that are tied to election cycles and so change frequently. This suggests that establishment of a durable mechanism and framework for public-private partnership would forward PSD.

2.B.1 PUBLIC SECTOR INSTITUTIONS AND PSD

Regarding institutions for fostering private sector development, the current public sector structure is relatively new and evolving. Most public institutions are constrained and the change in government structure and responsibilities that occurs after elections in Belize complicates policymaking and implementation as institutional memory and organizational operations are often compromised. The incessant reorganization of Ministries in Belize has accompanied changes in Government since 1998 making it difficult for even nationals to make their way around the political-official landscape. The professionalism of Belize's public service has deteriorated also over the last 15 years with the politicization of the public service. This came about because the position of Permanent Secretary (PS) in the Ministries and a part of the professional public service was abolished and replaced with the contractual position of Chief Executive Office (CEO). A CEO's employment rests on the good will of the Minister and accordingly CEOs tend to be more captive to the views and prerogatives of Ministers than were the Permanent Secretaries who were career civil servants. Most recently, in the aftermath of the 2012 elections for Prime Minister, the government was once again reorganized aimed also at signalling Government's commitment to work with the private sector by establishing a private sector liaison in the Prime Minister's office and a Ministry with PSD as an explicit objective in its mandate as described below.

The public sector stakeholders relevant to PSD include the following:

- The launching of the **Business Forum** in November 2011 marks an important step in acknowledgement of the need for an open and broad forum for a systematic public-private dialogue. The Private Sector Forum, hosted by the Prime Minister, met again in 2012 and is expected to meet every six months and also in advance of the Legislature's consideration of the Government's annual budget. Decisions taken in the Business Forum are to be taken up with the Economic Development Council established in the context of the first Business Forum.
- The recently established **Economic Development Council (EDC)**⁸⁶ represents a milestone in Belize in providing a mechanism for public-private collaboration on approaches to private sector reforms. The EDC was established in November 2011 as a critical medium for the exchange of views and the sharing of information between the

⁸⁶ The Economic Development Council is comprised of 10 members—5 private sector including Belize Chamber of Commerce (BCCI) and Belize Coalition of Service Providers (BCSP) and 5 public sector representatives and is co chaired by the CEO of MoTI and President of the BCCI.

public and private sectors on matters affecting business and its economic performance in the country.

- The Prime Minister appointed a **Private Sector Liaison**, Ms. Amparo Masson, seated in the Office of the Prime Minister since May 2012 is the lynch pin of a strengthened public-private partnership. Ms. Masson has extensive private sector credentials including in management, business development and support services. Ms. Masson is also a former head of the Belize Chamber of Commerce and Industry. The establishment of the post of Director aims at establishing a means of identifying and coordinating reform activities by building well needed trust and respect between public and private stakeholders. This office could with sufficient technical and financial support also provide an effective coordination and tracking mechanism for donor support as well as provide, continuous updating of the project/program landscape which appears to change rapidly in Belize.
- The **Ministry of Finance and Economic Development (MoFED)** advises on the formulation and execution of financial policy, budget preparation, control and review, fiscal management, public debt servicing, insurance and banking. The Ministry also advises on economic policy and commercial development and is the focal point for projects and programmes in Belize.
- In addition, the Minister of State Santiago Castillo is responsible for economic development.
- The **Ministry of Trade, Investment Promotion, Private Sector Development and Consumer Protection (MoTI)** was established in 2012 after the elections signalling a heightened government effort to rationalize private sector related initiatives. This aspect of the reorganization of Government comprised moving the Directorate of Foreign Trade from the Ministry of Foreign Affairs to this newly formed Ministry headed by Minister Erin Contreras and managed by CEO Michael Singh. MoTI is responsible for policies governing private sector development. This Ministry also assumed responsibility for **BELTRAIDE**.
- Through the re-establishment of the **Ministry of Tourism and Culture (MoTC)**, and together with its line agencies, the Belize Tourism Board (BTB), the National Institute of Culture and History (NICH), the Border Management Agency (BMA), the Belize Archive and Records Service (BARS), and the IDB-funded Sustainable Tourism Program (STP), the Government of Belize has begun the process of realigning the priorities and way forward of tourism development in the country, in its interest to ensure long term sustainability. The MoTC is responsible for policy development, regulation oversight and enforcement and destination promotion authorities for the tourism industry. The MoTC headed by Minister Heredia Jr and managed by CEO Tracy Traiger-Panton along with BTB and Director Luara Frampton, have been responsible for the promotion, development and oversight of the tourism sector as a top national priority.

- The **Ministry of Natural Resources and Agriculture (MoNRA)** is headed by Deputy Prime Minister Gaspar Vega (emphasis on Natural Resources and Lands Department and Minister Hugo Patt (emphasis on Agriculture) and managed by CEO Beverly Castillo and Jose Alpuche, respectively. MoNRA promotes sustainable use and management of lands and other natural resources and sees the agricultural sector (including livestock and fisheries) as providing the economic base for enhanced economic growth for the best recipe for poverty alleviation.
- The **Central Bank of Belize (CBB)** is the other relevant major participatory institution. The CBB under the lead of Governor Glenford Ysaguirre and Deputy Governors promotes monetary stability that promotes the growth of the economy of Belize and oversees all banking institutions and credit unions.
- The **Belize Trade and Investment Development Service (BELTRAIDE)** was established in 1997 as the Trade and Investment Promotion Service (TIPs) to address Belize's inevitable loss of preferential markets for export. TIPs was renamed BELTRAIDE in recognition of its expanded mandate. It is tasked with identifying new markets for exports, and in principle, offers support for traditional exporters and advises the government on trade promotion. BELTRAIDE is resource constrained like other government agencies but is distinctive in being charged with a mandate that encompasses export promotion, investment incentives and more the small business development initiative. With the establishment of a strategy for MSMEs consideration should be given to increasing BELTRAIDE's capacity or reallocating some functions of BELTRAIDE, such as the SBD initiative to another agency.⁸⁷
- The **Belize Agricultural Health Authority (BAHA)** oversees safety certification of Belize's food products, including exports. Other line Ministries feed into the process depending on the issue.
- The **Belize Bureau of Standards** is a government department that operates under the Ministry of Economic Development. The Bureau was established by the Standards Act of 1992 and continues to operate under the terms of the Standards Act Revised Edition of 2000 as the national organization for the preparation, promotion and implementation of standards relating to goods, services and processes.
- **Directorate of Trade (DOT)**. The DOT is responsible for trade negotiations and for

87 The Belize MSME Policy and Strategy Report, proposes the establishment of a MSME Act that will define MSMEs and establish an implementing body, the Belize Agency for Development of Enterprises (Belize ADE), that could oversee the SBD initiative.

working with the private sector to develop the country's trading agenda.

- **Development Finance Corporation (DFC).** After a hiatus because of credit and corruption issue the DFC was re-established in 2008 under the UDP government. It provides the vehicle and main facility for private sector development funding from the state. However, the UDP Government is considering establishing another public sector bank aimed at providing financing for small investors, businesses and consumers.
- **Gaming Control Board.** The GCB is responsible for regulating gaming and providing for the administration of gaming licenses.
- **University of Belize (UB).** The state university. It offers a business degree but does not appear to be extremely active in the promotion of private sector issues

In terms of interactions between line Ministries and the principals identified as relevant to PSD, the line Ministers, Chief Executive Officers (CEOs) and senior staff, in principle, are to be consulted on developments or issues that are cross cutting in scope and impact the responsibilities of their Ministries. The organizational structure emerging for PSD and the relative roles and areas of responsibility are not yet clear and other than the six monthly Forum meetings the modalities of collaboration have yet to be specified. Currently, weekly Cabinet meetings, including the Ministers and CEOs, serve as a mechanism for interactions between Government officials.

2. B.2 BUSINESS SUPPORTIVE INSTITUTIONAL STRUCTURE AND PSD

In Belize there are several umbrella organizations that represent the interests of the private sector. There are also a few industry specific groups. The small scale of business and the high cost of organization perhaps influence the organization of private stakeholders. According to consultations with stakeholders there are 2500 registered businesses in Belize City alone and as noted the SSB counted 10,641 active businesses in Belize in 2008. Partnerships across private sector organizations (PSOs) are beginning to form and this is important if the private sector is to have a voice and an impact on policy. The major PSOs that are currently operational are described below. These cameos of PSOs are based on consultations with PSO representatives and general information provided on available websites.

As concerns coordination between business supportive entities in the private sector, according to the experience of this assessment as well as the DMX conducted independently, “private stakeholders appear to recognize the need for coordination and dialogue at all levels, although

actualizing effective mechanisms and approaches seem to elude them.”⁸⁸ The government ministries, statutory bodies and other entities involved in PSD admit to a lack of coordination exacerbated by the change in government in 2012. Differences in approach and focus as it pertains to PSD and its related issues are also problematic. The private sector organizations also admit to coordination failures and the ability to speak with a unified voice. The main private sector entity—the BCCI—does not represent a material amount of the private sector and this causes credibility problems. Nor should the BCCI be expected to represent the views and needs of the MSMEs sector. As expressed in the DMX for Belize, “Stakeholders from both sectors agree that a policy which focuses the priorities and defines the roles and contribution of both sectors toward a common development agenda would serve to improve the quality of communication and widen the space for coordination at all levels.”⁸⁹

THE BELIZE CHAMBER OF COMMERCE AND INDUSTRY (BCCI)

The Belize Chamber of Commerce and Industry (BCCI) is the largest private sector membership based organization in Belize. Founded in 1920, the organization has been consistently championing the causes of its private sector constituency and considers among its primary objectives the social and economic development of Belize through the development of all sectors of industry and commerce. Additionally, since 1997, the Chamber is the only recognized "Employers Organization" in Belize under the International Labour Organization's (ILO) tripartite social partnership.

The BCCI currently has about 300 members, largely medium and large businesses. The BCCI's main objective is to “To foster the economic growth and social wellbeing of the nation through the free enterprise system at all levels, by promoting and protecting, both nationally and internationally, commerce, and all sectors of industry which includes agri-business, tourism, manufacturing, the professions and trades.” Here the BCCI appears to have influence. Lobbying has been the main form of advocacy. However, with the new channel for public-private partnership in particular —the establishment of the EDC in 2012 on which the BCCI sits, the BCCI has a formal position at the table in the new structure. It is also noteworthy that the Private Sector Liaison in the Prime Minister's Office is a previous BCCI President.

THE BELIZE TOURISM INDUSTRY ASSOCIATION (BTIA)

The Belize Tourism Industry Association (BTIA) was formed on April 26, 1985 as a broad-based tourism umbrella organization. BTIA has sought to bring together tourism related interests to meet the challenges of a dynamic and growing tourism industry in Belize.

The association has representation on almost every government, legislative, advisory, consultative and licensing committee in line with the BTIA's expressed commitment to national development. BTIA also plays an important role in the linkage of the private and public sectors.

88 Belize DMX, p. 28.

89 Belize DMX, p. 29.

As a direct consequence of BTIA's initiatives, in particular its advocacy efforts, tourism has become the fastest growing industry and has been pushed to the forefront of government's priorities. Based on consultations, the BTIA branched off from the Belize Hotel Association (BHA) as the sense of the current BTIA membership is that the BHA evolved into an organization that did not represent the broad based interests of the tourism sector.

THE BELIZE HOTEL ASSOCIATION

The Belize Hotel Association (BHA) is a non-profit, non-government organization and Belize's oldest private sector tourism organization. Its membership is comprised primarily of accommodation providers including hotels, resorts, lodges, condominiums, educational facilities and home-stays, with allied members including tour operators and ancillary businesses that service the hospitality industry.

The BHA works diligently to support the sustainable growth of member hotels and the tourism industry in Belize through global marketing initiatives, private and public sector partnerships and training opportunities aimed at increased standards and professional service.

THE BELIZE CREDIT UNION LEAGUE (BCUL)

The Credit Union (CU) Movement in Belize was started in 1943 by a coalition of 32 individuals. The Belize Credit Union League is an association of Credit Unions and was established to further the Credit Union movement's common interests through advocacy, bulk purchasing, and training for the benefit of its members. It is the philosophy of Belize Credit Union League that by working together the credit union movement will become strong and possess the necessary skills to be able to provide products and services for its members. The BCUL currently has 13 credit unions as members including the Citrus Growers and Workers Credit Unions.

Credit unions have played an important role in providing financing in Belize importantly during economic downturns when commercial banks are more risk averse. In 2011 credit unions accounted for about 20% of financial assets. Credit unions are important in financial intermediation and funding for micro, small enterprises, recent initiatives and donor support (IDB and CBB) aimed at supporting credit union activities for SMEs and in rural areas for farming related activities.

BCUL is a leader in providing support for entrepreneurs and in identifying needs for advancing financial literacy. BCUL is providing financing for the Youth Business Trust to Mentor and finance young entrepreneurs. Credit Unions fall under the over sight of the Central Bank of Belize. There is scope for GOB to work more with the BCUL to support financing needs for SMEs.

THE BELIZE COALITION OF SERVICE PROVIDERS (BCSP)

The Belize Coalition of Service Providers (BCSP) is “an alliance of service sector organizations and associations that functions as a lobby and channel for addressing economic development issues and trade-in-services issues that impact the services sector.

The BCSP was established to help the services sector stakeholders advocate for the creation of an enabling environment which will allow the Belizean services sector to survive in the competitive, global marketplace and meet the challenges encountered in exporting their services. The BCSP has a seat on the EDF.

An additional objective of the BCSP is to prepare Belize’s service providers with the knowledge, tools, and skills that will allow them to manage the challenges as well as take full advantage of the opportunities Belize will increasingly encounter in a globalized era.

The coalition has been working to sensitize existing service providers as to the importance of coalitions, and recruiting them to join the coalition. In October 2011, the Government of Belize received a grant from the CART Fund in the amount of US \$277,906 to support the Strengthening and Capacity Building of the Newly-Established BCSP. Government has also committed US \$118,815.00 as a counterpart contribution.

The BCSP is acutely aware of the need to establish a baseline for the contribution of service providers to the economy in terms of value added and employment. In this vein the BCSP has launched a project to develop comprehensive sector profiles, a service sector database, road maps and action plans for guiding the development of the priority service sub-sectors. The report should be available in early 2013. The BCSP currently has about 10 members. In 2009, BCSP joined seven other CARICOM member states in establishing a coalition of service providers to increase export services within the CARICOM Single Market and Economy (CSMI) and provide technical and other inputs into negotiations for trade in services.

THE BELIZE OFFSHORE PRACTITIONERS ASSOCIATION

The Belize Offshore Practitioners Association (BOPA) was established on 31st July, 1995 under the Belize Offshore Practitioners Association Act Chapter 273. BOPA was constituted as a corporate body which comprises of a Committee of Management of the Association which includes President, Vice President, Treasurer, Secretary and 3 Directors.

The BOPA has about 80-100 members including international and domestic registered companies, professional trustees, and international financial services practitioners.

Approximately 230 individuals and companies are licensed under the IFSC as of mid November 2012 providing a range of services.

THE BELIZE BUSINESS BUREAU (BBB)

The Belize Business Bureau's mandate is articulated in the law.⁹⁰ It is charged broadly with dealing with matters affecting the interests of the members of the productive sector aimed at promoting economic growth and sustainable development and preservation of the productive sector. Specifically, the BBB is responsible for promoting and facilitating the creation of new industries and the development and growth of small and medium enterprises. The law establishing the BBB also empowers it to educate the general public and public service as well as to take necessary action to ensure that legislation, agreements and treaties affecting the Belizean productive sector's interests are properly formulated and enforced through continuous consultations with the national and international authorities. The BBB has recently partner with the Belize City Council in launching innovative public-private initiatives. These include "Open for Business" to attract regional and local FDI aimed at generating employment and growth in the Belize City area; job creating legislative initiatives; development of hands on training programmes focused on job placement and job creation.

THE BELIZE SUGAR CANE FARMERS ASSOCIATION

The Belize Sugar Cane Farmers Association (BSCFA) was established in 1960 to represent all the sugar cane growers in the country. Its main functions include the provision of agrochemicals to members on credit or at discounted prices and implementing practices to improve the production, harvest and delivery of sugar cane. The vision of BSCFA is "To be a dynamic farmers organization that contributes to a sugar industry that is efficient, competitive and sustainable and which enhances the economic and social development of Belize."

BSCFA has a membership of more than 5,000 registered farmers who are actively engaged in growing sugar cane. The Association is divided into Corozal and Orange Walk Divisional Associations. These two districts in the north of Belize are known as the 'sugar belt' and are made up of two main towns and 40 villages. Each division is further divided into nine district branches and at every level the official representatives are democratically elected by registered cane farmers.

THE BANANA GROWERS AND THE CITRUS GROWERS ASSOCIATION

These two agricultural associations help to promote the interests of their private sector constituents in the relevant sectors.

The **Banana Growers Association (BGA)** is a cooperative of stakeholders/farmers that employees from 2500 to 3000 employees. Banana production in Belize has fluctuated considerably on an annual basis however, falling from 68,000 tons in 1994 to 45,000 tons in 1995 before rising back to 78,000 tons in 1999. Belize's major export market for bananas is the European Union under the [Cotonou Partnership Agreement](#) that is now replaced with the [Economic Partnership Agreement](#) (EPA) with the European Union. Under the EPA, Belize currently exports its bananas on a duty free quota free basis. In 1991 the BGA assumed

90 Belize Business Bureau, Chapter 307, 2000.

responsibility from the Banana Control Board for the marketing and research for the sector. The cooperative exports solely to FYFFES in the United Kingdom one of the largest importers and exporters of tropical produce worldwide. Two fungal diseases, Panama disease and black Sigatoka, threaten the viability of Belize's industry.

The **Citrus Growers Association**, (CGA), was established in 1952 with the objective of encouraging the growing of citrus by small farmers. The industry gained stability in the 1960s with the establishment of the Citrus (Processing and Production) Ordinance is now the most significant agro-industry in Belize. At the same the CGA was made responsible for citrus research and education through the Citrus Research Scheme, renamed the Research and Extension Unit of the CGA in 1981, and again in 1992 to the Citrus Research and Education Institute (CREI). Approximately 48,000 acres of citrus are cultivated in Belize (75% in Stann Creek District). The industry supports 1,000 registered farm families and approximately 10,000 citrus industry workers. The largest 65 growers contribute 75% of production. In October 2002 the Citrus Growers Association acquired majority ownership of the two processing factories, jointly known as Citrus Products of Belize Limited. This means that that all aspects of citrus production in Belize, from the tree planting to fruit processing to product selling are now grower owned and managed. HBL-Greening threatens the citrus industry in Belize.⁹¹

NATIONAL TRADE UNION CONGRESS OF BELIZE

The central federation of trade unions in Belize, represents 7 unions from both the public and private sectors and as such represents a material percentage of formal sector workers in Belize.

GALEN UNIVERSITY

A private tertiary level institution that offers business studies up to the Master Degree level and promotes sustainable development and private sector initiative and development. Galen University's specialty is a focus on sustainable development across academic disciplines. Galen has a Department of Business and Entrepreneurship and is working with the public and public sectors and in addition international institutions and NGOs to support entrepreneurial activities and abilities in Belize.

2.B.3

BUSINESS ENVIRONMENT

The previous section provided an inventory of public and private sector institutions relevant to PSD. However, the effectiveness of institutions in any country affects the ease with which business is conducted, and thus has an impact on the ability of the private sector to develop. The quality of institutions has a strong bearing on competitiveness and growth. The quality of institutions influences investment decisions and the organization of production plays a key role in the ways in which societies distribute the benefits and bear the costs of development strategies

91 Hunglongbing (HLB), also known as citrus greening or yellow dragon disease, has been reported to be one of the most serious diseases of citrus. Once a tree is infected, there is no cure for the disease and all citrus varieties are susceptible.

and policies. For example, owners of land, corporate shares, or intellectual property are unwilling to invest in the improvement and upkeep of their property if their rights as owners are not protected. The role of institutions goes beyond the legal framework. Government attitudes toward markets and freedoms and the efficiency of its operations are also very important

In line with this, the Global Competitiveness Index (Figure 28) attempts to capture all of the features indicated above in assessing and ranking countries by their competitiveness.⁹² Countries are classified into three stages of development: factor-driven; efficiency driven; and innovative driven. Belize's level of competitiveness classifies Belize as efficiency-driven. Within this framework, Belize's global rank is 123 of 142 sample countries and in the bottom tier in the sample of efficiency-driven countries. The only country in the Latin America and the Caribbean ranked lower than Belize using this index of the business climate is Haiti (#141). When composing the GCI into its' 12 composites,⁹³ Belize ranks lowest in business sophistication and innovation and highest in health and primary education.⁹⁴ Among the top five most problematic factors for doing business in Belize cited by survey respondents were: crime and theft; tax rates; access to financing; corruption; and inefficient government bureaucracy. Moreover, the WBES, in 2010 found that 62.5% of firms surveyed in Belize viewed corruption, in particular as a major constraint as compared to an average of 39.9% of firms in LAC and 36.3% in the world.

The World Bank's Ease of Doing Business index attempts to capture in a single measure how a country is performing in providing an enabling environment for business relative to the rest of the world. The ten categories comprising the aggregate index include starting a business, dealing with construction permits; getting electricity; registering property; getting credit; protecting investors; paying taxes; trading across borders; enforcing contracts and resolving solvency. Changes in the ranking provide a signal for investors and may also be useful for policymakers in understanding where their economies stand, especially for those countries that see attracting foreign direct investment as a priority.

In 2013 Belize is ranked number 105 of 185 countries in the World Bank's Doing Business Report (Figure 29). This represents an improvement as compared to Belize's ranking of 106 in 2012⁹⁵ and a material drop in Belize's ranking of 75 of 181 countries in 2009. Belize's ranking particularly concerning "Starting a Business" has declined since 2009. Belize is also ranked number 22 out of 35 countries in the Western Hemisphere. Belize ranked number 11 of the 20

92 Note the Belize did not participate in the 2012-2013 Global Economic Forum and ranking of countries by competitiveness. Therefore, the assessment in this paper is based on the 2011-2012 report.

93 These twelve pillars include innovation, business sophistication, market size, technological readiness, financial market development, labour market efficiency, goods market efficiency, higher education and training, health and primary education, macroeconomic environment, infrastructure, and institutions.

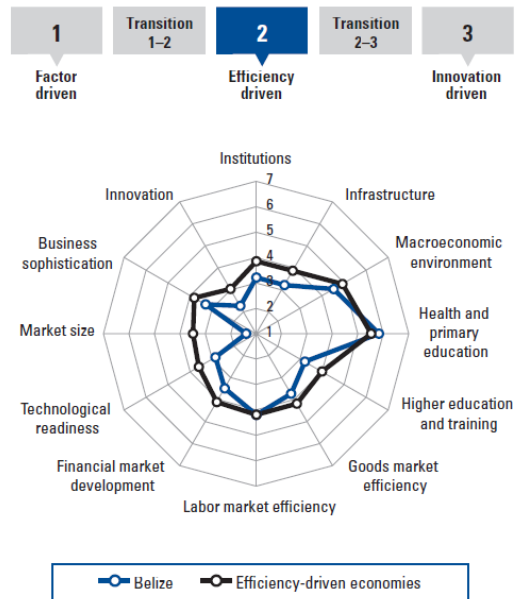
94 This positive relative ranking is telling given that educational performance at the secondary level as well as the high level of drop outs is a major challenge.

countries in Central America and Caribbean for ease of doing business (Figure 30), below most Caribbean countries (except Guyana and Haiti) and above most Central American countries (except Panama and Guatemala). Belize ranks high in dealing with construction permits (#20) and in paying taxes and resolving insolvency.

Figure 28. Belize’s Rank on the Global Competitiveness Index

| | Rank (out of 142) | Score (1–7) |
|--|----------------------|----------------|
| GCI 2011–2012 | 123 | 3.5 |
| GCI 2010–2011 (out of 139)..... | n/a | n/a |
| GCI 2009–2010 (out of 133)..... | n/a | n/a |
| Basic requirements (40.0%) | 97 | 4.2 |
| Institutions..... | 120 | 3.2 |
| Infrastructure..... | 100 | 3.2 |
| Macroeconomic environment..... | 88 | 4.5 |
| Health and primary education..... | 53 | 5.8 |
| Efficiency enhancers (50.0%) | 130 | 3.1 |
| Higher education and training..... | 112 | 3.2 |
| Goods market efficiency..... | 121 | 3.7 |
| Labor market efficiency..... | 82 | 4.2 |
| Financial market development..... | 111 | 3.5 |
| Technological readiness..... | 118 | 2.9 |
| Market size..... | 140 | 1.4 |
| Innovation and sophistication factors (10.0%) | 131 | 2.8 |
| Business sophistication..... | 116 | 3.3 |
| Innovation..... | 135 | 2.3 |

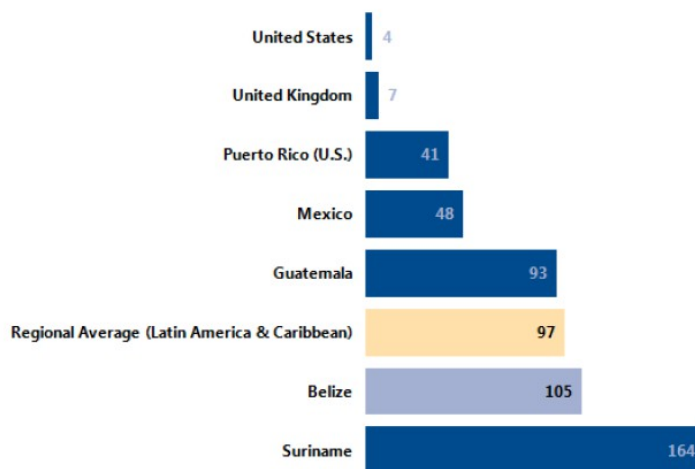
Stage of development



Source: Global Competitiveness Index

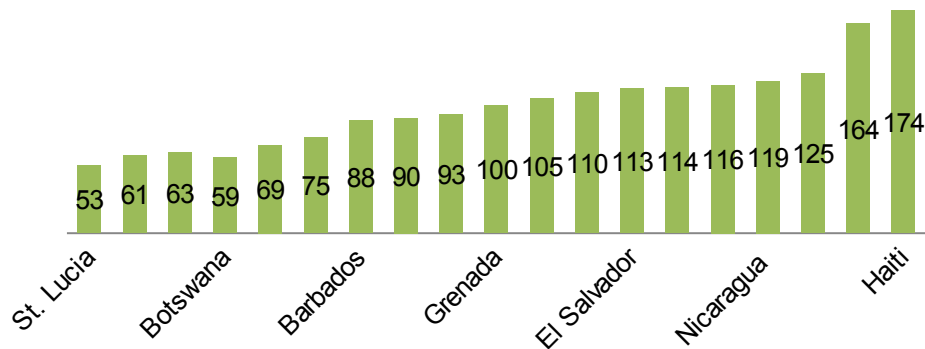
Figure 29. Belize: Ease of Doing Business Rank in 2013

95 Belize’s Doing Business rankings for 2012 is not last year’s published ranking but a comparable rating given data corrections and the addition of two economies (Malta and Barbados) to the sample.



Source: World Bank, 2013 Ease of Doing Business, Database, December 2012.

Figure 30. Ease of Doing Business, Belize and Peers



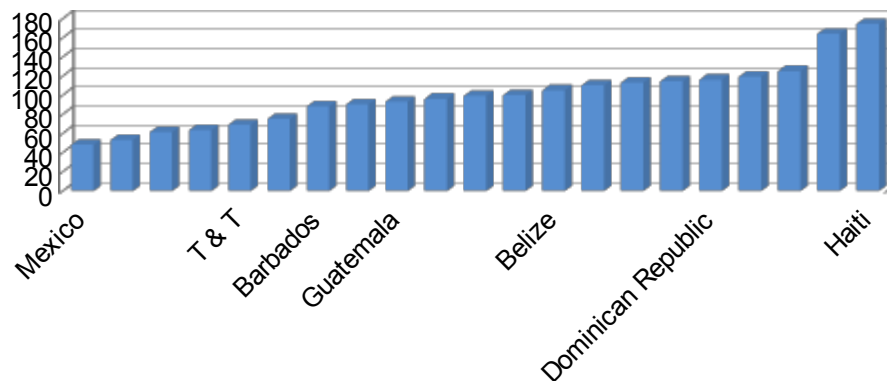
Source: World Bank, 2013 Ease of Doing Business, Database, December 2012.

In contrast, Belize is poorly ranked in the areas of enforcing contracts, starting a business and registering property (Figure 31) and all of these indicators (except enforcing contracts) deteriorated as compared to 2011. These rankings capture the expropriations of the telecommunications (August 2009) and the electricity company (June 21, 2011). Related to this, key recommendations of the 2010 Private Sector Assessment Report included both strengthening property rights and the quality of regulations.⁹⁶ Clearly there is scope for improving the business environment including via honing in further on the critical areas where support is needed as articulated also by private sector stakeholders in the context of Belize’s first PSAR.

Another important aspect of institutional effectiveness concerns good governance. The Worldwide Governance Indicators project reports aggregate and individual governance indicators for 215 economies over the period 1996–2011 for six dimensions of governance: voice

⁹⁶ See Rowland, Durante, and Martin (2010), pages 47-48.

Figure 31. Starting a Business, Belize and Peers



and accountability; political stability and the absence of violence; Government effectiveness; regulatory quality; rule of law; and control of corruption. These aggregate indicators combine the views of a large number of enterprise, citizen and expert survey respondents in industrial and developing countries.

2.C. LARGE AND FAST-GROWING SECTORS

Based on the analysis above and anecdotal yet unambiguous evidence from the consultations with stakeholders, the large and fast growing sectors in Belize are in the services sector. These sectors, in order of share of services, are as follows:

1. Tourism
2. Information and Communication Technology (ICT)—mainly Business Processing Outsourcing (BPOs)

There are other potentially “emerging” activities that are emerging, though they are not large or necessarily fast growing, that stakeholders identified as warranting support from the Government. However, hard data are scant or non-existent for these industries:

3. Financial services
4. Agro-processing

All of these industries except the financial services industry were identified as priorities in Belize’s National Export Strategy (NES) for 2007-2010.⁹⁷ While there are data and information for the tourism and IT sectors available there are not sufficient data and information for rigorous and in depth assessments of the state of opportunities in the other sectors. Therefore, this section will necessarily focus on the tourism and IT (BOP) sectors.

⁹⁷ BELTRAIDE(2006) *Belize National Export Strategy 2007-2010*, p. 43.

As concerns the other service sectors, the Presidents of both the Belize Coalition of Service Providers (BCSP) and the Belize Offshore Practitioners Association (BOPA) indicated projects in the pipeline to measure the size of the professional and financial services sectors, respectively.

- The BCSP has a study underway which includes establishing a baseline sector database. This study should be available by February 2013, and will provide survey based data and information on domestic service providers with a target sample size of 700 respondents.
- The President of the BOPA indicated that this organization was preparing terms of reference for a project that would help to identify the size, major actors, and value added of the financial services sector.

As concerns the growth of the manufacturing businesses in the agricultural sector, there is no information available on the scale of these operations notwithstanding the designation of the agricultural sector as a main priority in the National Development Framework for Belize.

2. C.1

TOURISM

The growth of the tourism sector in Belize is remarkable and provides a model of a successful public-private partnership. The private sector's role in moving the industry forward through continual investment and innovation has been instrumental in crafting the tourism product offered in Belize today. After the mid-1980s, the public sector provided an enabling environment in which the tourism private sector could grow. However, as noted, the sectors' success in diversifying the Belizean economy out of an agriculturally based mono-economy has led to legitimate assessments that economic activity in Belize is too concentrated in the tourism sector. This notwithstanding, there is public-private consensus that the tourism sector is a priority for Belize's economy over the next 30 years as articulated in Horizon 2030 and more recently in consultations with public-private stakeholders in the context of preparation of this paper. Moreover, the policy commitments for the sector are outlined extensively in the National Sustainable Tourism Master Plan (NSTMP). The NSTMP re-asserts "the potential of tourism as a major player in not only the economic development profile of the country, but in the manner in which the country's social and ecological assets are developed congruently as well."⁹⁸

The tourism sector of Belize is dominated by MSMEs. According to the Belize Tourism Board, most hotels in Belize have less than 12 rooms and employ less than [10] staff. There are two hotels—The Radisson Fort George Hotel and the Princess Hotel and Casino—that have more than 100 rooms. There is not information publically available on sales or profitability given that Belize has no legal requirement that businesses operating in Belize must disclose annual audited

⁹⁸ Ministry of Tourism and Culture (MOTC), Response Paper, Belize Chamber of Commerce and Industry *Investment in Belize: A Strategy for Innovation, Competitiveness, Entrepreneurship and Private Sector Development*, September 28, 2012

financial reports. However, the Belize Tourism Board (BTB) with oversight for the tourism industry indicates the following on its website:

The accommodation sector of Belize's tourism has experienced significant growth in property number (over 230%) and bed space (over 250%) in the past 10 years. In 2008 a little over 600 properties were operating as registered accommodation providers with the highest concentration of hotels, resorts, cabins and cabañas, found in the areas of Ambergris Caye, Placencia and Cayo District. When considered by category or type of accommodation, Belize's accommodation stock is characterized primarily by small boarding/guesthouses and small hotels and resorts with the average size per property maintained at just over 10 rooms.

As indicated by the BTB, there is currently no systematic classification system in place for the hotel sector. However, there is work in progress to introduce such a system based on international standards and in addition to establish guest accommodation standards and tour operator standards also consistent with international standards.⁹⁹ A major hurdle will be implementing and monitoring these standards without adding to the costs of doing business in the sector. Currently there is uneven compliance, monitoring and enforcement of rules and regulations governing actors in the sector resulting in an uneven playing field.¹⁰⁰

As discussed above, there are not detailed statistics available on employment in specific industries. Consultations with key and relevant stakeholders—including BELTRAIDE the Private Sector Liaison, Labour Commissioner, CEO for the Ministry of Trade, Investment Promotion, Private Sector Development, Consumer Protection, and the President of the Belize Chamber of Commerce and Industry reveal a consensus on the urgency of building the statistical data base on the labour force and to match this with the private demand in the sectors. In addition, data are required on the number of actors, employment and the value added in different sectors of the economy. There is an added challenge to bring the labour and tax legislation up to international standards, as well as the financial disclosure and bankruptcy legislation.

As concerns gender, the data above indicate that women in Belize are primarily employed in the tourism and other services sector. Given the large weight of the tourism sector in the services sector women are certainly well represented in the services sector in terms of employment.

Regarding the competitiveness of the overnight stay portion of the tourism sector, Belize appears as an expensive destination based on airfares. It is cheaper to fly to Costa Rica or Caribbean destinations than it is to fly to Belize. This is largely due to landing fees, taxes, and infrastructure

99 See Provisional Draft Hotel and Tour Operator Classification and Standards; October 2012.

100 For instance, BTB requires that anyone selling or arranging tours is licensed as a tour operator. Yet unlicensed and uninsured tour operators abound with implications for safety of guests.

constraints.¹⁰¹ In terms of overall price competitiveness, as discussed above, trends in the value of the real effective Belize dollar indicate a competitive advantage more generally for Belize's exports including tourism.

The cruise ship sector of the tourism industry has seen the most recent growth. The main challenge ahead will be to successfully upgrade Belize's port facilities for receiving the cruise ships. The government privatized the *Port of Belize City* in 2002. The expectation was that port charges would decrease. Instead they have increased. Again, part of the reason may be that there was little or no competition. Moreover, the port infrastructure was only selectively improved. The port company has concentrated its investment in improving infrastructure for the high margin tourism industry (cruise ships) rather than the lower margin freight traffic. At this stage, the company managing the Port of Belize is in receivership. The viability of this sector of tourism services will depend on the ability to modernize the port facilities.

Related to this, the BCCI White Paper indicates that it is essential to improve "Belize's docking facilities for the survival of cruise tourism in Belize. Competition within the cruise industry has become much fiercer in recent years, with neighboring ports aggressively developing themselves as ports of call for cruise ships, coupled with the fact that Belize is at a significant competitive disadvantage due to lack of a shore side docking facility."

The Government has indicated a commitment to construct a cruise ship docking facility in Belize City as a part of the NSTMP.¹⁰² In this regard, the NSTMP agrees that for Belize to remain as a competitive market including in the Cruise Sector, it must have at least one docking facility for Cruise Ships in Belize. This report recommends that the Government request a thorough port diagnostic study be undertaken supported by a development partner with the knowledge of infrastructure policy issues as suggested by the Prime Minister in the context of the 2012 Business Forum.

In terms of further development of the tourism sector, there is certainly scope for upgrading and expanding Belize's tourism product in line with the goal of leading Belize into "the future equipped with a dynamic, competitive, and sustainable tourism industry".¹⁰³ Analysis of the tourism sector shows room for increasing the level of export sophistication as compared to other tourist destinations in Central America and the Caribbean.¹⁰⁴ Specifically, Belize's overnight arrivals are the lowest among comparators. As a consequence tourism expenditure per capita in Belize is low relative to these comparators. Further diversifying Belize's tourism product, as planned, to emphasize its comparative advantage in ecotourism based on Belize's rainforest and Mayan heritage would also be important. Belize is among just a handful of countries with Mayan

101 The airplanes with large capacity cannot land and maneuver on the current runway at Philip Goldson International Airport.

102 See MoTC response to the BCCI White Paper.

103 *National Sustainable Tourism Masterplan for Belize 2030*, Executive Summary.

104 See Hausmann and Klinger, pages 23-25.

historical sites as Belize was once the centre of the Mayan Empire.¹⁰⁵ As indicated by the NSTM for Belize, the *Caracol Mayan site* (known as the most important of all Belizean Mayan sites) and the *Chiquibul Caves System* (hosting a great network of caves in the Chiquibul) are among Belize's four "unique tourism assets and these should be leveraged."^{106 107}

Another potential channel for upgrading the tourism basket, concerns expanding the number of origin markets to target overnight visitors from countries with attributes different than those of Belize's main origin market—North America. In this regard, consideration might be given to tapping European and Asia markets for overnight visitors. Research shows that the demand of long-haul travellers for tourism products is less sensitive to income and price changes as compared to short-haul visitors. Most of Belize's tourists are short haul visitors from the U.S. and Canada.¹⁰⁸ Although European countries (Germany, Netherlands, France, and Italy) were among the top 10 origin countries for Belize's tourist arrivals, their share of total tourist arrivals was only 5%, as compared to a 62% for the US and 5% for the UK.¹⁰⁹ The share of Europeans in visitor arrivals to Belize increased steadily through the 1990s peaking at about 10% of total visitor arrivals before declining below the UK share of 1990 overnight visitor stays.

The international educational tourism (IET) sector is another area into which Belize's tourism sector could expand based on what is envisaged in the NSTMP. This sector is generally overlooked in most countries including Belize and it is witnessing significant growth and responds to aggressive institutional outreach efforts and government policies that facilitate enabling visa policies. It is valued at \$250 billion of a \$1.04 trillion in 2011 global tourism sector and youth travel accounts for about 20% of the global travel industry.¹¹⁰

China, India, Vietnam, Mexico, and Brazil are emerging markets in the international education industry. Latin America and Asia are seeing the biggest increase in interest in this tourism

105 The Mayan empire stretched through Guatemala and southern Mexico flourishing from 1500 BC until about AD 900.

106 NSTM for Belize 2030, pages 4-5.

107 See Archibald, et. al. *Analysis of Tourism Competitiveness in the Caribbean: A Gravity Model Approach*, Research Dept. Central Bank of Barbados, 2008.

108 Numerous empirical studies on tourism demand elasticity have been published since the early 1970s, including those carried out by Crouch (1995), Song and Witt (2005), and Lim (1997). The general findings of these studies indicate that the income elasticities of tourism demand, are generally greater than one, thus indicating that tourism is a luxury—with the exception of empirical work on the European market where income elasticities are lower. See Metzgen (1989). The own price elasticity is normally negative, but the magnitudes vary considerably depending on the type of tourism (long or short haul) and the time span of the demand under consideration (long-run versus short-run).

109 NSTMP for Belize, page 4-9.

110 ICEF Monitor, February 2013.

subsector since 2010.¹¹¹ Enrollment growth at the Bachelor's level is set to outstrip growth at the Master's and Doctoral levels. Since international students studying at the Bachelor's level are typically funded by their families, as opposed to financial aid, and provide a longer stream of revenue (four years) versus Master's programs (two years), some public institutions are viewing this trend as a solution to current fiscal challenges.

Belize could seek donor support to identify the current actors in this sector and elaborate an IET sector strategy. IET offers exposure to different cultures as well as application of skills acquired in origin country classrooms to a different setting. Belize's environment and Maya heritage as well as its education infrastructure provide Belize with a comparative advantage in the international education market for these specialized areas. Belize's natural resource endowment—the second largest barrier reef in the world and a protected rainforest—offer biodiversity and as well as a diverse and yet unique ethnic cultures including the Maya and the Garifuna that can serve as the basis for developing a niche educational tourism market in archaeology, anthropology, biology and more broadly topic relevant to sustainable development.

Finally, it would be important to strengthen the statistical database for collection and reporting of tourism related data to establish a baseline and understand more clearly both trends in Belize's tourism industry and areas for expansion. In this regard, a move into the IET market would be a potentially lucrative business for Belize that builds on the existing capacity and strengths of the tourism sector. International education is a multi-billion dollar industry. In the US alone international students and their dependents contributed approximately US \$22 billion to the US economy. While the US and European destinations are well established and dominate the market, other countries are beginning to participate in this market.

2.C.2

ICT—BPOs

One senior government official described Belize's BPO sector as “the spring board for IT development in Belize. The BPO sector is a growing sector in Belize though it is at this stage a small industry with exports valued at about US\$4-6 million as limited data and consultations suggest. BPO is the delegation of one or more IT intensive business processes to external service providers or internal captives that own and administer these selected processes.”¹¹²

- BPO involves outsourcing of back office functions such as Finance and Accounting (F&A), Human Resources (HRO) and front office functions such as Customer Interactive Services (CIS).
- While most BPO processes are transaction oriented, knowledge process outsourcing (KPO) involves processes that demand analytical, decision making and domain specific skills. Some examples include market research and data mining

111 Idem.

112 Compete Caribbean, *Analyzing the Potential of Developing the BPO Sector in Belize*, November 16, 2012.

- Vertical Specific services are BPO services that are tailored to an industry's requirements. Some examples include insurance underwriting, mortgage processing and consumer analytics.

Owing to the rising interest in BPO services, global BPO spending reached US \$153 billion in 2011 with new interest being generated in areas like Central and Latin America.

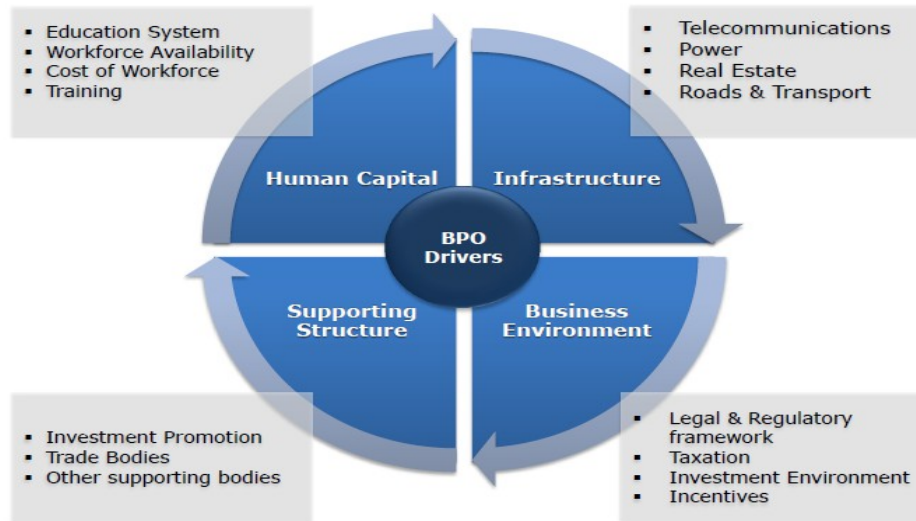
Currently, India, China and the Philippines represent mature locations; Mexico, Brazil, Chile, Colombia, and Costa Rica represent growing locations; and emerging locations include Morocco, Ghana, Kenya, and Jordan.

Belize is a potentially promising destination. The requirements for the growth of the BPO industry in an offshore destination depend on the following factors as outlined in a Compete Caribbean Study (Figure 32). Increasingly US buyers are looking at near shore destinations like Canada, Mexico, and Latin America. Latin America can offer up to 40% cost savings to US apart from the near-shore travel and time advantage.¹¹³ Apart from US, Spain is the leading spender on Latin America “offshoring”.

There is broad consensus among both public and private sector stakeholders that the BPO sector is an important emerging sector worthy of a public-private partnership. The BPO sector is seen as an opportunity to upgrade the sophistication of the activities provided, required labour skills, and hence to provide higher paying jobs. The particular positives that Belize has to offer concern English and Spanish language competency as well as proximity to the US. Moreover, GOB's majority interest in BTL makes it easier to move Belize to a digital economy. In this regard, a positive step was taken recently when BTL increased band width to users without an increase in rates. It would also be important for Belize via the PUC to review Belize's spectrum policy and fee structure with a view toward harmonization and instituting competitive rates. Relatedly, there key challenges to address, including the quality of education, if the BPOs sector is to become a priority in the development strategy given the fierce competition in this sector (Figure 33).

Figure 32. Global BPO Market Drivers

113 Idem.



Source: Compete Caribbean.

Notwithstanding the benefits already realized in terms of employment—consultations with stakeholders reveal expectations of an additional 1000 jobs in this sector in the short run. However, there are also relative challenges for Belize in competing in this sector and attracting investors as compared to other countries in the region, mainly the lack of a qualified and skilled

Figure 33. Drivers and Challenges of Expanding the BPO Sector

| Belize Drivers | Belize Challenges |
|--|---|
| <ul style="list-style-type: none"> ● Native English language ● Nearshore destination ● Stable Macro-economic factors <ul style="list-style-type: none"> • Stable currency • Stable democracy ● Cultural affinity ● Growing base of providers ● Competitive labor costs ● Redundancy in connectivity ● High unemployment | <ul style="list-style-type: none"> ● Labor pool scalability <ul style="list-style-type: none"> • Lack of availability of qualified and skilled agents • University graduate output lacks industry aligned skills ● Not favorable perception of the BPO industry among the labor pool ● Telecom rates are dropping but not the lowest in the region ● Lack of cohesive sector development strategy ● Lack of visibility in target markets <ul style="list-style-type: none"> • Perception as a Tourist and High Crime location |

Source: Compete Caribbean

labour force and relatively poor infrastructure. In this regard, a Compete Caribbean financed study shows that Belize has moderate potential for expansion in this sector (Figure 34). The Government of Belize has entered into a Technical Cooperation Agreement with the IDB to

access resources under the Compete Caribbean Program to refocus investment attraction efforts towards key sectors, including ICT that will drive economic growth in the country.

Figure 34. Outsourcing: Regional Comparisons

| PARAMETERS | JAMAICA | DOMINICAN REPUBLIC | BELIZE | BARBADOS | COSTA RICA | T&T |
|---|--|------------------------------|---------------------|--|---|---------------------|
| ICT/BPO Exports | USD 145Mn | USD 450Mn | USD4-6Mn | USD 10Mn | USD 600Mn | -- |
| ICT/BPO Employee Base | 13,000 | 25,000 | 1,600 | 2,000 | 31,000 | <1,000 |
| Quality of Education (1-Poor – 7-Very Well) | 3.2 | 2.4 | 2.7 | 5.1 | 4.9 | 4.4 |
| Business Environment Rankings (Ease of Doing Business) | 88 | 108 | 93 | -- | 121 | 68 |
| Infrastructure Ratings (1-V Poor 7=Intl' Standards) | 4.4 | 3.2 | 3.5 | 5.9 | 3.6 | 4.4 |
| Govt. Prioritization of ICT Future (1-No Plan 7=Clear Plan) | 3.8 | 3.9 | -- | 4.3 | 3.9 | 3.6 |
| Key Services Areas | Voice BPO (English), F&A BPO, Tech Support | Voice BPO (English /Spanish) | Voice BPO (English) | Voice BPO (English), Medical Transcription | BPO (Voice/Non Voice/ Multi lingual), KPO | Voice BPO (English) |
| Key Locations | Montego Bay, Kingston | Santo Domingo, Santiago | Belize City | Bridgetown | San Jose | Port of Spain |

2.C.3

FINANCIAL SERVICES

Belize is a newcomer in the field of the international financial services industry. The 1990 International Business Companies Act allows international investors to engage in “offshore” transactions such as: asset protection and operation of bank accounts, brokerage accounts, ship ownership, and commission arrangements. The Act was based on the British Virgin Islands model designed to meet differing investment needs. In a short space of ten years, Belize had registered more than 15,000 International Business Companies (IBCs). Belize's IBC legislation is viewed internationally as one of the most modern and user-friendly. It is particularly designed with the offshore investor in mind.

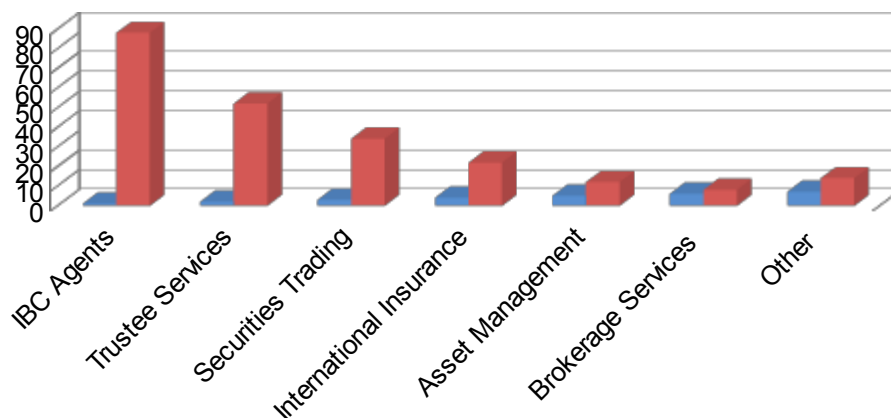
A Belizean IBC is an ideal corporate vehicle for international financial transactions and allows the investor to engage in a wide variety of activities ranging from asset protection to operating bank accounts, brokerage accounts, ship ownership, commission arrangements and various other commercial transactions.

The Trusts Act followed in 1992 and provides for onshore and offshore trusts. According to the International Financial Services Commission (IFSC), the regulatory body for the financial services sector, Belize’s trust law is “universally acknowledged as one of the best in the field”.¹¹⁴

¹¹⁴ IFSC website.

Belize's trust law contains provisions that are specialty designed to meet the needs of differing and diverse cultures and religions. Belize further expanded its offshore sector in 1996 with the passing of the Offshore Banking Act.¹¹⁵ As noted, BOPA has about 80-100 members including international and domestic registered companies, professional trustees, and international financial services practitioners. In comparison, approximately 230 individuals and companies are licensed under the IFSC as of mid-November 2012 providing a range of services (Figure 35).

Figure 35. Financial Services, 2012



Source: IFSC Website.

One of the major issues for the sector is to establish a baseline data base on the size of the sector, its employment and value added to the economy. In this regard, the BOPA, is considering launching a project to make an initial assessment of the sector. Another key concern for the sector is assuring its international competitiveness. Importantly little of the proceeds generated by Government taxes on the IFS sector are re-invested into the sector for marketing and promotion and product development with negative implications for the outlook of the sector.¹¹⁶

Also affecting the competitiveness of some international financial services, the City Council of Belize City Council recently introduced the requirement that international financial service providers operating in Belize obtain trade licenses. This cost can be material¹¹⁷ and comes on top of the licensing fees required by the IFSC and adds to the concerns expressed by many private

¹¹⁵ This provides for two categories of offshore banking licences - the Unrestricted "A" Class and the Restricted "B" Class licence. The holder of a "B" Class licence maintains lesser capital and is restricted to conducting certain limited business activities only.

¹¹⁶ BCCI White Paper (2012), page 15.

¹¹⁷ Fees are calculated based on annual rental value of the property and are divided by sectors .

sector stakeholders about the Government needing to reform the tax systems to reduce the layers of taxes.¹¹⁸ Financial sector professionals are also concerned about the discriminatory tax treatment of residents as compared to foreign nationals: tax rates range from 1.5 to 6% of assessed values.

More generally, skilled workers would also be required to support the growth of the financial sector and this, in turn, would require a review and modification of the immigration and labor laws so that skilled labor can more easily be employed in Belize. Finally, there was some support for signing by the Government of a double taxation treaty with the United States. Regarding the outlook for the sector, an area of growth flagged is asset protection and wealth management via trusts pending modification of the law.

2.C.4

AGRO PROCESSING

As discussed, the agricultural sector is the second largest sector in the economy and a priority for the Government. In 2011, exports of traditional agricultural products such as sugar, citrus, and bananas exceeded US \$125 million and represented 38% of merchandise exports. Add papaya, a non-traditional export, to traditional exports and the share of agricultural products in merchandise exports rises to 42%.¹¹⁹ While the Government launched a major project to advance the agro processing industry, the results have not yet met expectations (Box 3).

Disaggregated data on production and exports of traditional, non-traditional, and agro processed agricultural products are not reported. However, it is acknowledged that Belize has had little success in diversifying away from primary agriculture. The objective remains to generate more agro-industries in areas and sectors in which economies of scale are achievable. Growth prospects in this area face five major constraints including institutional capacity for trade policy making and implementation, addressing the diseases facing the citrus and banana industries, export promotion, access to finance and road transport infrastructure. In this regard the BCCI White Paper calls for a “fully-tailored agricultural policy that identifies products that Belize can produce consistently and predictably, value added and create niche markets...”¹²⁰

In terms of immediate priorities for “jump starting” agro processing, several stakeholders proposed two main obstacles: The functioning of the Belize Marketing and Development Corporation (BMDC) and access to credit. Established in 1949, the BMDC, was charged with

118 The licensing process is designed to ensure that only 'fit and proper persons' are allowed to provide, carry on or transact international financial services in or from within Belize. The application fee is US\$500.00 while the annual licence fee is US\$2,500.

119 Papaya exports came on stream in 2000 and at that time represented 5% of agricultural exports and in 2011 exceeded 9%.

120 BCCI White paper, page 47.

encouraging trade through marketing and promotion as well as identifying markets for Belize's products. Instead the BMDC has focused mainly on distribution and importation of commodities such as fruits, vegetables, and staples. There are also widespread perceptions that the BMDC causes trade distortions and thus is viewed as a major impediment to the modernization of the agricultural export sector and expansion into value added activities.¹²¹

Key also to realizing a vibrant and diversified agricultural sector, including for export, is providing access to credit. The perception is that there is an inherent bias against financing farm related enterprises by commercial banks in Belize. Given that commercial bank financing dominates the financial system in Belize this is a major obstacle. Government initiatives to promote development of agro-business include the reestablishment of the Development Finance Corporation to improve access to finance, and European Union and IDB supported operations to enhance competitiveness of the agriculture sector. Moreover, there have been steps toward identifying micro financing initiatives to reach small farmers including through Belize's credit union system. Stakeholders called for a comprehensive agricultural sector strategy aimed at increasing value-added exports while securing domestic food security.

Box 3. An Agro-Processing Initiative in Belize

An agro-processing multi service facility was established in 2009 a huge step in the enhancement of the food processing industry in Belize. The main objective of the project was to provide training and technical assistance for the creation and expansion of small and medium sized agro-processing enterprises. The Facility aimed at providing individuals or groups with the opportunity to jump-start their own processing operation guided by the ROC and the Ministry of Agriculture and Fisheries in the areas of product development and marketing with a business approach.

The expectation was that the agro-processing multi-service facility will increase the variety of agro-based processed products on the local markets, improve quality of local agro-based processed products, increase the number of small and medium enterprises involved in the processing of agricultural commodities and contribute to improve incomes and livelihood of producers and processors. The benefits conferred since its launch in 2009 are not publicly available.

2.D

ISSUES FOR PRIVATE SECTOR DEVELOPMENT

This section assesses a number of issues that are critical to the development of the private sector in Belize. It discusses a number of challenges that face the private sector drawing on consultations with stakeholders and several global databases. In this regard, this report based on identifies the priority actions for PSD to be to:

- Improve macroeconomic stability by prudent fiscal consolidation and debt management;

¹²¹ This is based on discussions with stakeholders. See also BCCI White Paper, pages 48-50.

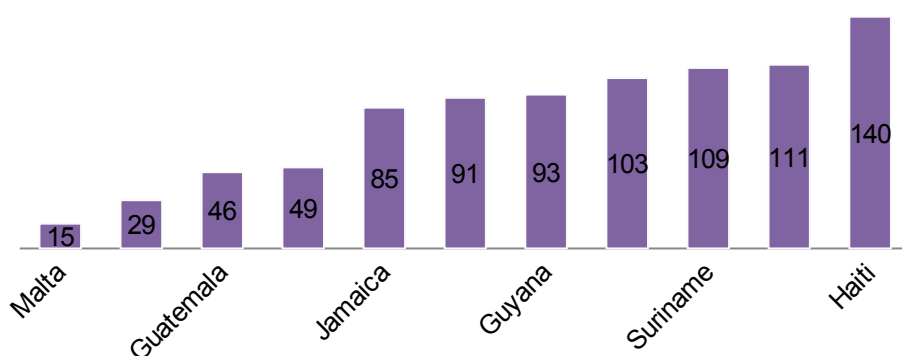
- Improve access to finance in particular for MSMEs including by establishing credit bureaus and other means of assessing risk and reducing the reliance on real estate collateral for loan;
- Establish programmes that develop skills in the labour market that are demanded by emerging and expanding sectors (tourism, ICTs, financial services and agro processing);
- Reform the tax system by providing a levelled field for all market participants instead of current practices of providing at hoc tax breaks;
- Re-establish the rule of law including through improved property rights—property registration, enforcing contracts and regulatory changes in agencies which slow down investment—changes in legislation and addressing crime and corruption.
- Promote innovation through public-private partnership in support of research and development (R & D) including through partnerships with universities (University of Belize and Galen University) and other tertiary institutions in Belize

2.D.1

ACCESS TO FINANCE

Belize’s financial system has experienced some growth and diversification since 1980. However, it is characterized as comparatively underdeveloped¹²² and also high cost. A relatively undeveloped (Figure 36) and oligopolistic financial sector structure of the industry in Belize has led to longstanding material challenges for businesses’ access to finance. The availability of financial services in Belize ranks only higher than Haiti among Caribbean and Central American peers. Currently, the banks are flush with excess liquidity suggesting risk aversion in the private sector. As in many developing countries bank financing is the main source of financing

Figure 36. Financial Market Development, Belize and Peers

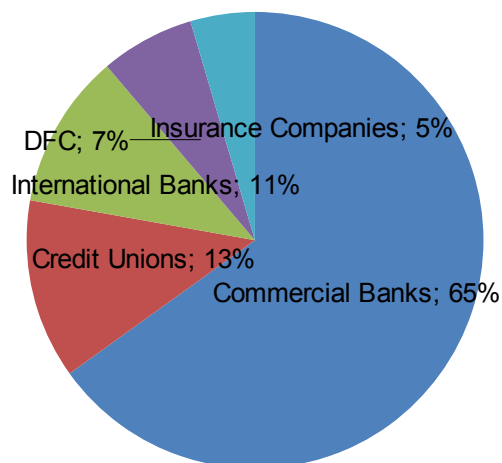


Source: Global Competitiveness Report, 2011-2012.

¹²²Garcia, Novelo, and Vellos, *The Evolution of the Financial Sector in Belize (1996-2007)*, page 27.

available mainly to large businesses while credit unions and moneylenders in the informal sector tend to finance smaller investments and MSEs (Figure 37). The analysis in this section is based mainly on the issue of banking

Figure 37. Share of Financial system Assets, 2011



Source: IMF.

credit. The main issues that have emerged from consultations with stakeholders from this study and an earlier study of the MSE sector are access to finance (Table 15) and affordability of capital. The credit constrained status of firms appears to be a significant problem in Belize (Antigua and Barbuda and Jamaica) as compared to other Caribbean and Central American peers with more than 40% of firms identified as fully or partially credit constrained (Table 16).

Table 15. Percent of Firms Identifying Access to Finance as a Major Constraint, 2010

| | Belize | Barbados | Bahamas, the | Guyana | Latin | |
|----------------|--------|----------|--------------|--------|---------------------|-------|
| | | | | | America & Caribbean | World |
| Total | 66.8 | 41.1 | 12.9 | 18.3 | 30.8 | 31.7 |
| Small (5-19) | 67.5 | 44.8 | 12.0 | 17.2 | 31.8 | 33.4 |
| Medium (20-99) | 66.1 | 28.2 | 17.8 | 19.6 | 29.3 | 29.6 |
| Large (100+) | 50.1 | 56.1 | 1.9 | 17.1 | 21.4 | 24.4 |

Source: WBES

Studies show that the probability of being credit constrained decreases with firm size¹²³ and firms in Belize appear to fit this general profile. The study on MSMEs indicates that these problems are especially acute for MSEs. This suggests policies are needed for promoting financial intermediation including through alternative channels to address the financing needs of this important sector.

Table 16. Credit Constrained Status of Firms, by Country, 2010
(% of total firms)

| Country | NCC | MCC | PCC | FCC |
|---------------|-------------|-------------|-------------|------------|
| A & B | 47.7 | 7.5 | 38.9 | 5.9 |
| Barbados | 69.6 | 7.7 | 19.1 | 3.6 |
| Belize | 44.3 | 14.3 | 36.7 | 4.6 |
| Costa Rica | 44.5 | 18.0 | 14.6 | 22.9 |
| El Salvador | 36.2 | 33.3 | 24.8 | 5.7 |
| Guatemala | 38.3 | 28.5 | 15.0 | 18.3 |
| Guyana | 50.2 | 29.2 | 18.8 | 1.8 |
| Honduras | 38.5 | 22.4 | 15.7 | 23.4 |
| Jamaica | 38.0 | 17.6 | 41.8 | 2.6 |

WBES. Notes: NCC stands for non credit constrained; MCC stands for maybe credit constrained; PCC stands for partially credit constrained; and FCC stands for fully credit constrained.

Credit to the private sector in general does not appear to be supply constrained in Belize as banks have been flush with liquidity. However, credit is expensive and access to finance poses a particular challenge for micro- and small-sized businesses. Loans to businesses are available at high interest rates and with collateral that generally well exceeds the loan value. Micro and small businesses often lack appropriate collateral to back financing needs. As assessed by a prominent banker in Belize, the banks in Belize have been essentially “Land Banks” with an “overreliance on collateral as opposed to cash-flows to support lending. Credit is generally not available to households although credit cards are available via banks also backed by collateral. Consistent with the comments from stakeholders, the growth diagnostic¹²⁴ for Belize identified access to finance as the binding constraint to economic growth.

Belize’s real interest rates have been persistently high in Belize’s income group though recently not by Caribbean regional standards (Figure 38).¹²⁵ High spreads exist despite the absence of

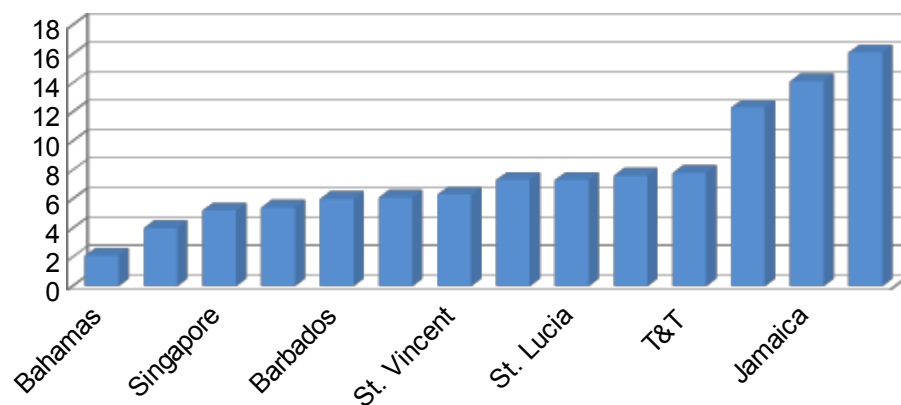
¹²³ Kuntchev, Ramalho, Rodriguez-Mezo, and Yang, What have we learned from the Enterprise Surveys regarding access to finance and SMEs?, World Bank, February 14, 2012.

¹²⁴ The growth diagnostic framework was developed by Hausmann, Rodrik and Velasco at the Center for International Development, Harvard University.

¹²⁵ Hausmann and Klinger, *Growth Diagnostic: Belize*, IDB, December 2007, pages 6-7 and IMF, *Belize: Staff Report for the 2003 Article IV Consultation*, April 2004, page 10.

exchange risk given the durability of the exchange rate peg. According to several analyses, from just under half to 12% of the interest rate spread is due to reserve requirements.¹²⁶ This has placed upward pressure on reserve requirements contributing to a higher cost of financing, ceteris paribus. According to interviewees, rates may also be high because there is legally no longer a financial disclosure requirement complicating risk assessment. Two related factors—a high rate of nonperforming loans (NPLs) and a large number of bankruptcies—have been identified by a prominent financial sector professional as contributing to high lending rates. Bankers also see “excessive provisioning requirements” as a potential material constraint to lending for large projects, in particular, given the capital requirements and requirements for provisioning for NPLs.¹²⁷

Figure 38. Interest Rate Spreads



Source: CBB

There is only some limited evidence of government deficits crowding out private sector investment via higher interest rates in 1985-96.¹²⁸ However, the private sector has had access to credit also through international channels so there is some consensus that crowding out has been minimal. More recently spreads have declined though probably not sufficiently to stimulate private sector demand for funds as banks are highly liquid as noted.

¹²⁶ See Perez, *Determinants of Interest Rate Spreads in Belize*, July 2011, Hausmann and Klinger and IMF 2010 Article IV Staff report.

¹²⁷ In 2008 the nonperforming loan portfolios of the banking sector ballooned to unprecedented proportions (exceeding 25%) though according to IMF estimates, NPLs had declined to 19.8% of total loans in June 2011 (Article IV Staff Report, 2011, page 3.).

¹²⁸ Strategic Policy Unit, *The Belizean Economy, 1985-1996 Evidence of Crowd Out Effects*, CBB, July 1997.

Looking across time, Belize's banking system has been characterized by high and relatively stable spreads between lending and deposit rates. In addition to high unremunerated reserve requirements, lending to government at below-market rates to meet liquid asset requirements has constituted an implicit tax on the financial sector. High operating costs and an oligopolistic-type market structure are other factors that may have contributed to wide spreads. In this regard, it is noteworthy that one major domestic bank accounts for most of the commercial lending to large and medium companies. Most recently spreads have declined though remain high albeit in the face of the large excess liquidity in the banking system. The average interest rate for a domestic and offshore commercial loan in Belize is 11% at a time when interest rates globally are at historic lows. High lending rates have been a major deterrent in Belize in particular to MSEs.

The fact that notwithstanding high interest rates, private savings failed to recover, after collapsing in the 1990s suggests an erosion of confidence in public policies and growth pessimism. Consistent with this, as noted, Belize's banking system has high liquidity. Consultations with private stakeholders revealed risk aversion with respect to expanding operations in the private sector without government support. In addition to sustained fiscal discipline, other actions to improve access to credit would include competition in the financial sector, promotion of an efficient and effective credit union industry, reform of the legal framework for secured loans that would help reduce the cost of financing and establishment of a credit bureau to help evaluate credit risk. A return to a requirement that companies prepare (and disclose) annual audited financial statement would facilitate transparency and support risk assessment. However, MSEs would need support in this area within the context of an overall strategy for the sector.

Although banking credit represents the largest share of the financial sector in Belize as in most low income countries, it has been widely documented that in order to finance innovative businesses (and dynamic start-ups) additional financial intermediaries might be needed. Indeed, innovative activities are greatly affected by the quite unique problems of tacit knowledge and uncertainty (as distinct from risk). Due to these issues and searching spill overs, banks do not normally do a good job of financing micro and small innovation-based entrepreneurs—MSEs.

In line with this, the MSME study indicates that although there seems to be no shortage of micro-finance, access to capital for MSEs in particular remains constrained by:

- low capitalization
- lack of collateral security

- aversion of traditional financial intermediaries to lend to the sector

- high administrative costs of small loans

- high cost of loan financing

- disincentives to equity financing

There is also the on-going complaint that the cost of financing is high for MSEs. Venture capital is nonexistent. Women, youths and small farmers are particularly vulnerable.

Given the above features of financial systems in low income countries like Belize, there is a need for the development of a new set of intermediaries such as business angels, venture capital and private equity to achieve a new class of contracting rules for limited partnership and intellectual property transactions. In this regard, Belize's first Finance Expo held in March 2013 and organized by the Belize Chamber of Commerce and Industry with the participation of DFC the Belize Credit Union League and large businesses represents a milestone in this direction. The first successful bond issue by a municipality in Belize—Belize City Council bond issue—in November 2012¹²⁹ suggests the emergence of financing modes beyond the banking sector. Moreover, the sustainable development of other financial market segments might require guaranteeing a sufficient flow of innovative ideas, and this in turn could require the development of support organizations such as business incubators, training programs for entrepreneurs and technology parks as elaborated in the MSME Study. Finally, given the current emphasis in Belize on the development of ICT based industries and advanced tourism activities, an important recommendation is to stimulate the entrepreneurship ecosystem of the country by the introduction of entrepreneurial development programs, acutely absent in Belize. Inclusion of MSMEs in incentive and concession programs would also be important.

As concerns specific recommendations for providing finance to MSMEs, the recent MSME study proposed the following:

- For micro enterprises, support the growth of micro finance institutions including credit unions, DFC and NGOs as well as micro credit windows at commercial banks.
- For SMEs, the policy objective is to reduce the costs and risks of lending to the sector by establishing new channels of financial intermediation. These channels include promoting equity financing via a venture capital fund, instituting a credit reporting system to facilitate credit risk assessment and financing in a timely and cost-efficient manner.
- Another important recommendation is to provide access to low cost funding from external sources such as the CDB and IDB for on lending to the MSME sector at rates linked to the level of risk. The partnership between the Immaculada Credit Union and the IDB serves as an example of an innovative approach in channelling funds while providing business support services to the sector.¹³⁰

At this juncture, discussions are underway in the public sector to address the need for broader access to credit and addressing operations inefficiencies include the establishment of:

- A registry of movable assets to underpin the collateral proved for loans'
- A credit bureau to allow risk assessment, and
- An automatic clearing system.

129 The bond issue was oversubscribed. The issue was structured to provide assurances to investors that interest and principal would be paid on time.

130 The Social-Entrepreneurship Program provides US\$982,000 in financing. The goal is that through this project, farmers and low income women entrepreneurs will have the prospect to better their standard of living by developing and strengthening micro-enterprises.

2. D.2

CORPORATE TAXATION

The rate of corporate taxation differs across economic systems based on the social contract and broad agreement on the role of the public sector. In European countries corporate and individual corporate tax rates tend to be higher given the social contract and provision of a high relative level of social services to citizens. In most developing countries with lower provision of public goods and services and non-existent social safety nets in general, the rate of taxation is viewed mainly as a cost to doing business and one that primarily reduces the international competitiveness of firms. Inconsistent and complex tax policies lower investment productivity and create uncertainty and thus risk aversion. Belize performs relatively well when assessing tax burden based on the tax rates charged using cross country databases. Belize has the third lowest total tax rate as a percentage of profit. Belize's performance in the administration of taxes was also relatively good (Figure 39) and indicates that Belizean firms are required to make a relatively modest number of tax payments (29) per year. Yet, locally cascading taxes and an uneven playing field in tax administration is a consistent and widespread complaint in the private sector.

Although data are not available, consultations with private sector holders revealed that tax issues—tax rates and tax administration—are among the top three concerns for businesses. Recommendations proposed were more progress in automation with a goal of establishing an electronic payments system for business and general sales tax. Moreover, there is keen interest in the undertaking of a thorough tax diagnostic of the taxes facing businesses by sector. In this regard, the Prime Minister indicated in his 2013 budget speech that the review of the tax system would once completed “is expected to produce recommendations for tax reform for increased growth, fairness and sustainable revenues. Such reforms will establish a firm foundation to allow for a growing economy and sustainable public finance.”¹³¹

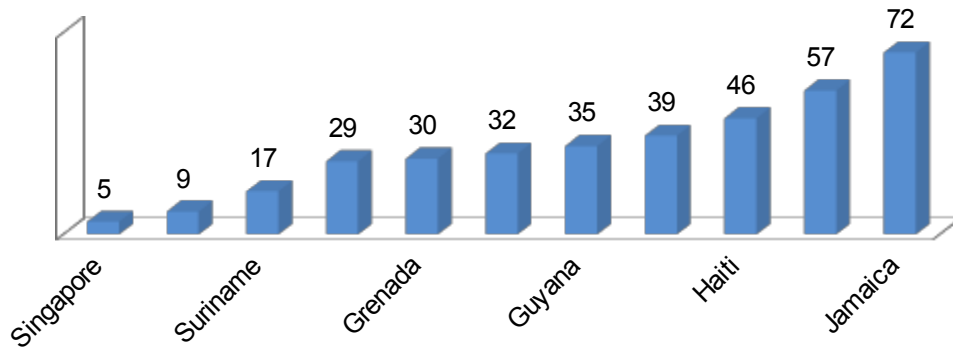
There is widespread perception of the need for a level playing field in the treatment of businesses by Government officials.

Concerns have been expressed for the large penalties levied for non-payment of taxes and for “mistakes”. The rules are not always clear¹³² and the penalties charged act as a disincentive in particular for micro and small businesses to come into the formal system. Micro and small businesses located outside of Belize City and Belmopan do not necessarily have access to telecommunications (television and internet networks) and thus have challenges keeping up with changes in requirements.

131 Budget Presentation for Fiscal Year 2013/14.

132 For instance, the owner of one small bed and breakfast complained that they had been fined by BTB \$1,000 because guests invoices had not been signed by the guests. The owner was not aware of this rule and it is not clear how a business owner would know this because this requirement is not posted on the BTB website.

**Figure 39. Tax Payments, Belize and Peers
(number per year)**



Source: World Bank, 2013 Ease of Doing Business, Database, December 2012.

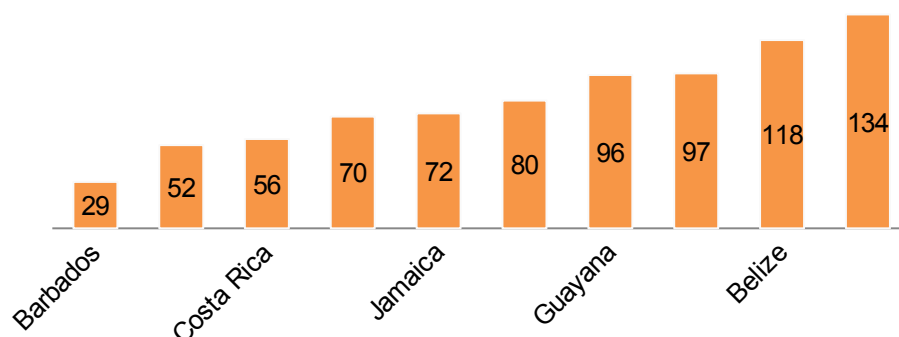
2. D.3

TECHNOLOGY AND INNOVATION

Technology and innovation are believed to be a strong determinant of economic growth. ICT access and usage are key enablers of countries' overall technological readiness. Figure 40 provides an index of technological readiness derived from the World Economic Forum [WEF12].¹³³ The index is based on indicators for the availability of latest technologies, firm-level technology absorption, FDI and technology transfer, Internet users, broadband Internet subscriptions and internet bandwidth. Belize's overall rank was 118 of 142 countries. Belize ranked next to last in terms of technological readiness within the benchmark group of countries (Figure 40).

¹³³ Belize is not covered in the World Competitiveness Report 2012-2013 and so an earlier report was used.

Figure 40. Technological Readiness, Belize and Peers



Source: Global Competitiveness Report, 2011-2012.

Sufficient investment in research and development (R&D), especially by the private sector is critical for long term growth and viability. This involves the presence of high-quality scientific research institutions; extensive collaboration in research between universities and industry; and the protection of intellectual property rights. R&D tends to be constrained in countries like Belize facing fiscal pressures notwithstanding its importance for sustainable growth going into the future. In this pillar of the GCI, Belize ranked 135 of 142 countries and relatively low among comparator countries (Figure 41). R & D in Belize is scant with the exception of the agricultural and cultural sectors.¹³⁴ In the agricultural sector the Sugar Industry Research and Development Institute (SIRDI) established in 2010 and supported by European Union financing focuses on enhancing the competitiveness of Belize’s relatively high cost sugar industry.¹³⁵ The TSDT works with Belizean organizations, ministries and universities to research sustainable land resource technologies. The Institute for Social and Cultural Research

2. D.4

TRADE AND FDI POLICIES

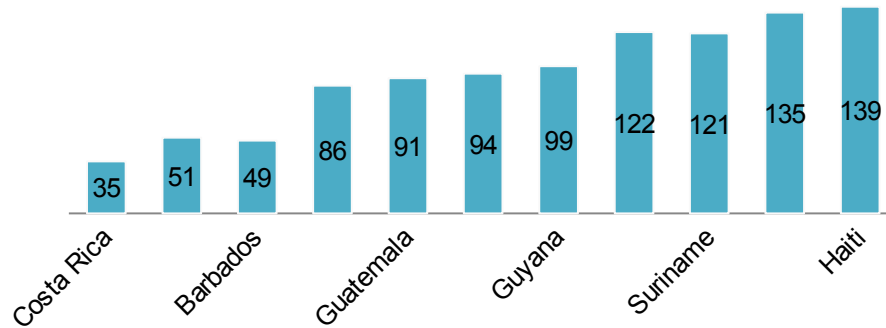
Tariffs are relatively high on most categories of goods imported into Belize. The average applied tariff on all products in 2006-2011 was about 11% relatively high among comparator countries

¹³⁴ The Belize Institute of Agricultural Research and Development was established by an Act (Chapter 46:01 and revised in 2003 to promote agricultural research, development and technology transfer. However, little information is available about the functioning of the Institute since its establishment.

¹³⁵ According data prepared by SIRDI and Galen University, the cost per ton of sugar cane production in Belize’s sugar industry (before transportation to factory) is about US\$56.77 per ton as compared to US\$11.48 per ton for the US and US\$3.43 for Guatemala.

(Figure 41). Tariffs are highest on agricultural goods averaging about 36% in 2006-2011 though the average tariff declined from about 39% in 2009 to 34% in 2011 (Figure 42).

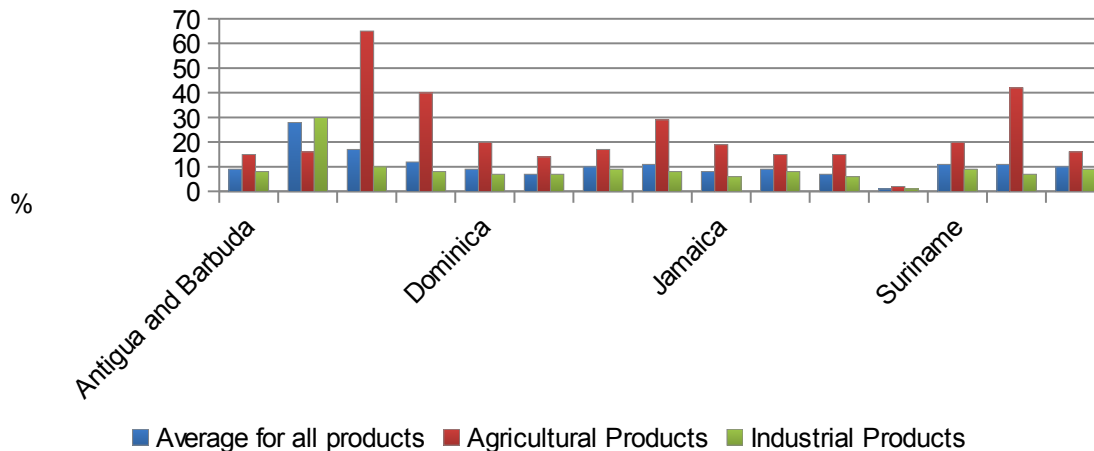
Figure 41. Innovation, Belize and Peers



Source: Global Competitiveness Report, 2011-2012.

The level of protection offered to the manufacturing industry is relatively low, with the average tariff on industrial goods estimated at 8%. It should be noted, however, that under the Fiscal Incentives Act, some industries, particularly in the tourism sector can import goods duty-free. The cost of trade with Belize is further affected by restrictive licensing rules for the import of some products. Import licenses are imposed to protect certain producers. Overall, the policy restrictions on imports increase input costs for domestic producers, while boosting the returns from supplying the domestic market, thereby creating an anti-export bias. They also create strong incentives for the private sector to seek to avoid such costs and increase the demand for exemptions through incentive arrangement.

Figure 42. Average Tariff Rates, Belize and Peers

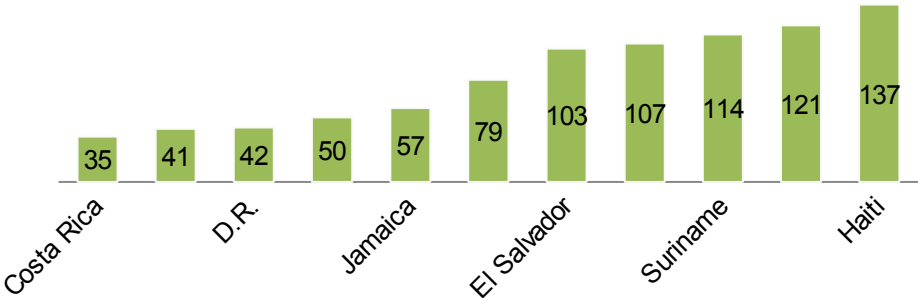


Source: International Trade Center

As discussed above, a key feature of the trade policy framework is Belize’s access to preferential trade arrangements. Belize benefits from unilateral preference schemes with the European Union, in particular its banana and sugar protocols; the United States; and Canada. It is a member of the Caribbean Basin Initiative (CBI), through which the U.S. government provides duty-free access to the U.S. market for most products. A significant portion of Belize’s foreign trade is done through these preferential agreements and currently about 85% of its exports are duty-free. Belize’s exports are still heavily skewed toward preference scheme destinations.

As concerns the business impact of rules on FDI (Figure 43), for Belize the rules and regulations do not represent a significant burden on FDI inflows relative to other measures of doing business

Figure 43. Business Impact of Rules on FDI, Belize and Peers



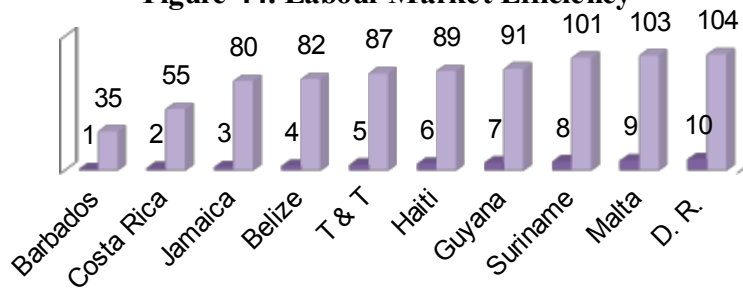
Source: Global Competitiveness Report, 2011-2012.

in Belize. Belize is ranked 121 of 142 countries in this category. However, Belize’s relative ranking among comparator countries is low.

2. D.5 LABOUR REGULATION

Belize is viewed as being relatively successful in maintaining labor market flexibility compared with the region and best practice countries (Figure 44). In the Doing Business indicators, Belize performs relatively well—a ranking of 82 of 142 countries on the overall ranking and 10 in the category of Employing Workers – a calculation based on four indices showing the difficulty of hiring, rigidity of hours, difficulty of firing, and rigidity of employment. However, total compensation—wages as well as overtime, holiday, vacation, severance and social security payments—in Belize is acknowledged to be relatively high and this comes through clearly in consultations with private stakeholders. This can be attributed in part to economic fundamentals, such as the abundance of natural resources relative to a limited labor supply.

Figure 44. Labour Market Efficiency

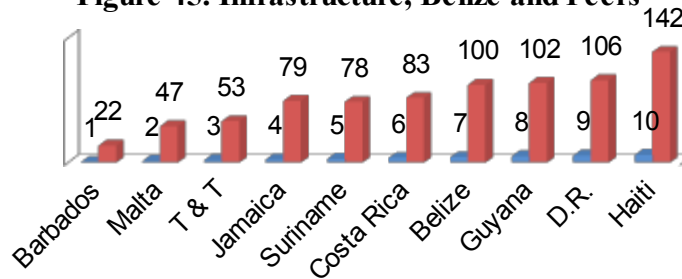


2.D.6

INFRASTRUCTURE

In Belize there has been low capital investment in infrastructure owing mainly to fiscal constraints. Belize ranks 100 of 142 countries on basic infrastructure provision and low relative to comparators (Figure 45). The quality of infrastructure is accordingly low (Table 17).

Figure 45. Infrastructure, Belize and Peers



Recently, the Government has mobilized substantial bilateral and multilateral financing of infrastructure, particularly transport investments, which are critical to support private sector development. These projects include completion of the Southern Highway and construction of a bypass in the twin towns of San Ignacio and Santa Elena. There is also a consultancy underway on expanding the Northern Highway into a four lane dual carriage highway.

Table 17. Quality of Infrastructure in Belize

| | | |
|--|------------|-----|
| Quality of overall infrastructure | 3.5 | 106 |
| Quality of roads | 3.0 | 103 |
| Quality of railroad infrastructure | n/a | n/a |
| Quality of port infrastructure | 3.3 | 115 |
| Quality of air transport infrastructure | 4.4 | 76 |
| Available airline seat kms/week, millions* | 14.9 | 126 |
| Quality of electricity supply | 4.1 | 88 |
| Fixed telephone lines/100 pop.* | 9.7 | 95 |
| Mobile telephone subscriptions/100 pop.* | 62.3 | 114 |

Source: World Development Report, 2011-2012.

Requirements for immediate investments include a paved road to Caracol in the Mountain Pine Ridge area which is essential to opening this area to the tourism trade, consistent with the National Tourism Plan. There would also be positive spillovers for economic development from paving the road which would also facilitate the introduction of power and telecommunications to this area which according to the 2009 Poverty Assessment and the 2010 Census is one of the poorest areas in Belize. Other infrastructure requirements include investment in the primary network to raise the level of robustness to potential future disaster events (particularly coastal flooding) and addressing substandard conditions in parts of the network which have safety consequences including user-safety upgrades. A particular challenge is the absence of sustainable road maintenance financing mechanisms, again owing to fiscal constraints but also to institutional resistance to adopting alternative approaches, including private sector participation. However, the government has expressed commitment to undertake institutional reforms, with support from the EU in developing a road maintenance plan. Moreover in March 2013, the Government announced a sixty million dollar infrastructure package to be financed and implemented via a “newly registered, wholly GOB-owned, private company” called Belize Infrastructure Limited (BIL). This is described as a “special-purpose vehicle that will create jobs, stimulate demand, purchase private sector material and supplies, and generally raise that tide that will float all Belizean boats.”¹³⁶ BIL ‘s creation has been controversial because of its governance and financing structure.¹³⁷ It remains to be seen if BIL will be able to efficiently and expeditiously advance infrastructure projects supportive of PSD.

2. D.7

ENVIRONMENT

Regarding the environment,¹³⁸ there is broad consensus in Belize that natural resources management should be integrated into national planning due to the importance of the environment for the country’s growth. In this regard, according to the 2010 UNDP Scorecard and Outlook Report, Belize is on track to meet MDG targets with respect to the environment.

Belize's sector-specific policies and legislation are generally robust. Various key environmental policies and legislations exist, such as the National Biodiversity Strategy Action Plan, the 2009 Water Resources Management Act, the 1992 National Lands Act and the 1999 Coastal Zone

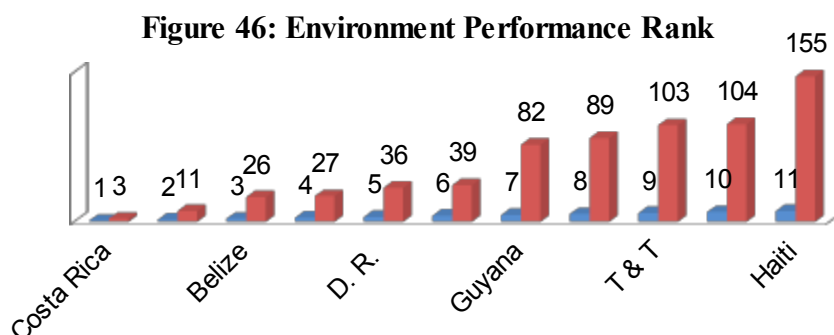
136 Achieving Debt Sustainability Stimulating Economic Expansion, Budget Presentation for Fiscal Year 2013/2014.

137 BIL has been called “a new type of state enterprise” because it is capitalized with \$60 million in budget funds. However, its shareholders are government officials who are eligible for a percentage of any profits that BIL generates.

138 Belize is not included in Yale University’s Environmental Performance Index.

Management Act. The old notion of “development versus environment” has given way to a new view on one of the most pressing problems facing Belize today, with negative implications for economic growth, is deforestation and drought. With agriculture and tourism development, as two of four pillars of the Government’s growth strategy, current environmental policies may call into question economic sustainability if more concerted action does not continue on this front. In this regard, Belize serves as a leader in protected area management in establishing the National Protected Areas System Plan and the Protected Areas Conservation Trust and in this context elaborating a protected area policy for the country.

As a result of these efforts, as Figure 46 indicates, Belize was ranked 26th in the 2010 Environmental Performance Index, the most recent year in which Belize is ranked. This index provides a gauge at a national government scale of how close countries are to established environmental policy goals. Belize performed significantly better than all ranked countries in the Caribbean and Central American regions except Costa Rica. Belize was also ranked 6th of 28 countries in Central and South America. Belize has well above-average performance in, general environmental health, maintaining ecosystem vitality, the effects of air pollution on humans, biodiversity and habitat, and in its agricultural and fisheries practices. The country also performs well relative to the comparator countries in climate change and the effect of water systems on the ecosystem. Below average performances were recorded in the areas of environmental burden of disease, water effects on humans, air pollution—effects on the ecosystem and in its agricultural practices.



Source: Environmental Performance Index, <http://www.epi2010.yale.edu/Countries>

Notwithstanding Government’s relatively *avant garde* actions, Belize’s national forest cover has declined in 2011, more than 1% point to an estimated 62%.¹³⁹ Almost a third of the roughly 1 million acres of agricultural land in Belize occurs on land classified as marginal or unsuitable for agricultural activity. Almost a tenth of agricultural activity occurs on steep slopes prone to erosion. Moreover, 4% of all agricultural land is located in areas at extreme risk of erosion, should there be sufficient rainfall.

¹³⁹ Meerman and Cherrington *Forest Cover and Deforestation in Belize, 2010-2012*, 2012.

Where land conversion is a major cause of land degradation, it is also worth noting that available data indicate that half a million acres (almost a tenth) of the nation’s land have been deforested in the past thirteen years.¹⁴⁰ Most of the clearings occurred in central Belize, particularly in the Belize River watershed, which could have potential future impacts on drinking water quality should the trend continue. The Guatemalans exploitation of the reserves, e.g., the Chiquibul forest is another source of environmental degradation.

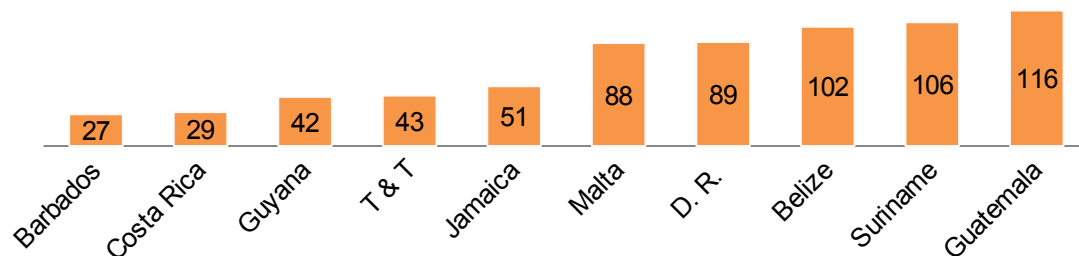
In comparison, drought may affect a greater proportion of Belize’s agricultural lands. According to Meerman and Cherrington (2012), almost two-thirds of all Belize’s agricultural lands overlie limestone prone to desiccation. In addition, almost forty% of all agricultural land in Belize is in low-rainfall prone areas. These factors combine to put almost a third of Belize’s agricultural land in drought-prone areas.¹⁴¹ A challenge in addressing land degradation and drought will be to ensure that Belize meets its commitment to its population in maintaining ecosystem services, and its commitments to national and international biodiversity conservation while, nevertheless, facilitating economic development today. These developments suggest that a priority ahead is the review and reinvigoration of Belize’s national policy for protected areas.

2.D.8

GENDER

The analysis of gender issues in Belize is significantly constrained by poor data yet Belize lags comparator peers based on comparator data (Figure 47). In Belize, women’s share in national

Figure 47. Global Gender Gap, Belize and Peers, 2011-2012



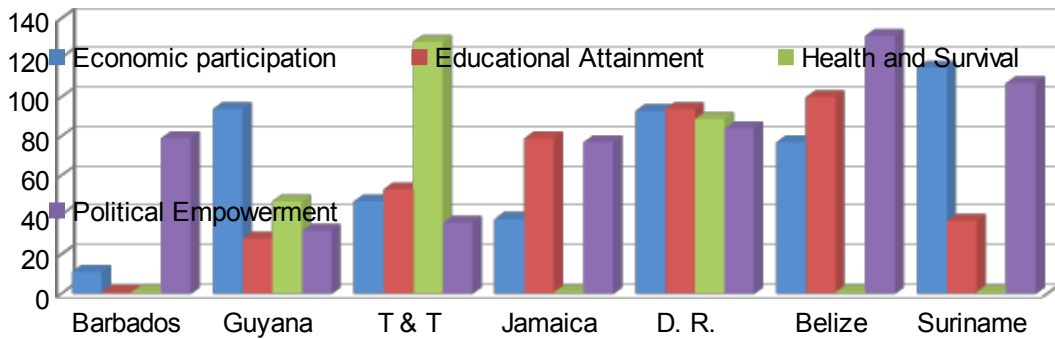
income remains far below that of men and this has been linked to gender inequity.¹⁴² In the World Economic Forum’s *Global Gender Report for 2012* (Figure 47), Belize is ranked

¹⁴⁰ While most of the deforestation was clearing of broadleaf forest (96% of clearing), also alarming is that mangrove forest was cleared at a rate of ~234 acres a year from 2010-2012, when the overall rate of clearing for 1980-2010 was only 125 acres per year, and the rate of clearing for 2004-2010 was 172 acres per year.

¹⁴¹ Meerman and Cherrington, *Preliminary Survey of Land Degradation in Belize*, 2005.

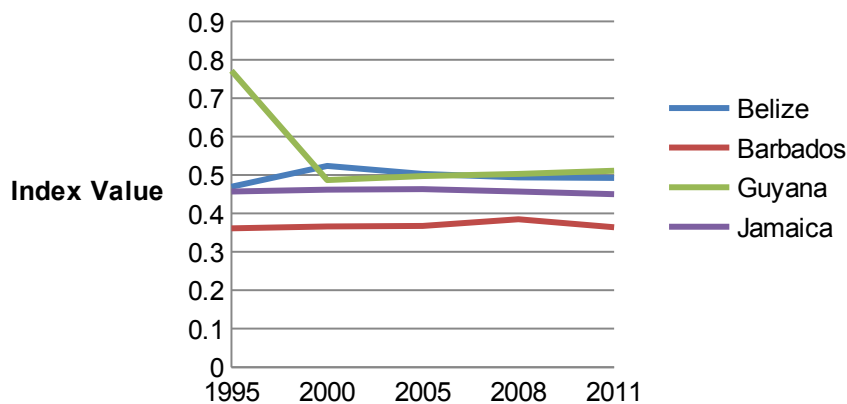
number 102 of 135 countries in 2012 (Figure 47). However, a decomposition of the index into its major components shows that Belize’s ranking is lowest in the categories of political empowerment (#131) and educational attainment (#100) and highest in economic participation (#77) and health and survival (#1). Belize’s ranking in political empowerment and educational attainment is also among the lowest in the region (Figure 48).

Figure 48. Decomposition of Global Gender, 2011-2012



The UN also publishes a gender related index—the gender inequality index or GII. This index is helpful in seeing changes in gender inequality over time because data are available for Belize for earlier years (Figure 49). In 2011, Belize ranked 97 of 187 countries and territories below all comparator countries in the Caribbean except the Dominican Republic, Belize, Guyana, and Haiti. After some improvement in 1995 Belize has not seen gains in reducing gender inequality.

Figure 49. Gender Inequality Index



Source: UN Gender Inequality Index.

As indicated above (Section 1.B.1), female participation in the labour force has increased substantially since 2002 by 10 percentage points to about 69%. The participation of women in the management of firms as well as in full time non-production positions in Belize is higher than the averages for Latin America and the Caribbean and for all countries included in the survey (Table 12). However, the% of firms with female participation in the ownership of firms is about 10%age points lower than for firms in Latina America and the Caribbean.

It is noteworthy that the percentage of firms with female participation in ownership was higher for firms in the services sector (34%) as compared to firms in manufacturing (17.5 %). In addition, the% of firms with a female top manager was also materially higher for service sector firms (30%) than for manufacturing firms (10%). Consistent with labour force statistics on the high proportion of females employed in the services sector, the proportion of permanent full time workers that are female is highest for survey firms in the services sector (53%) than for survey manufacturing firms (28%).

According to the Enterprise Survey data, firms in Belize with at least 10% foreign ownership a material higher participation of women as managers (31%) as compared to wholly domestically owner firms (25%) and in ownership: there is 45% female participation in firms with foreign participation and 30% in domestic firms (Table 18).

The relatively high rate of employment of women in the services sector suggests a way forward by promoting the expansion of the services sectors. This includes expansion of the tourism sector into new markets such as education tourism and medical tourism as well as “growing” other service industries such as BPOs and financial services.

Table 18. Female Participation in Firms, 2010

| Indicator | Belize | Latin America & Caribbean | World |
|---|-------------|---------------------------|-------------|
| % of firms with female participation in ownership | <i>30.4</i> | <i>40.4</i> | <i>35.3</i> |
| % of firms with a female top manager | 25.5 | 20.8 | 18.3 |

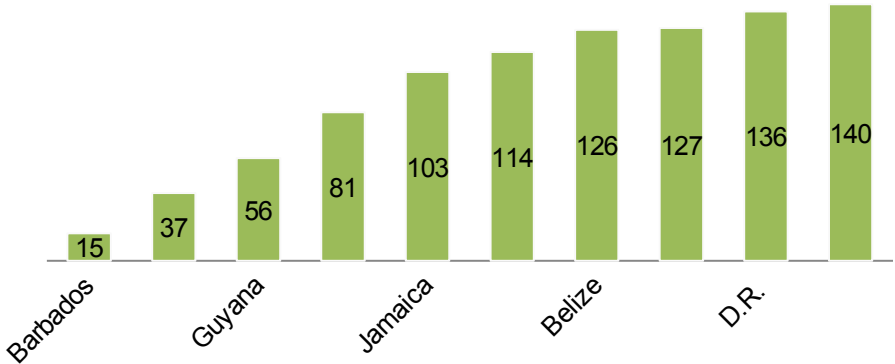
| | | | |
|---|------|------|------|
| Proportion of permanent full time workers that are female (%) | 47.2 | 37.9 | 31.1 |
| Proportion of full time non-production workers that are female. | ... | 13.8 | 9.9 |

2.D.9

EDUCATION AND TRAINING

As discussed, Belize’s expenditure on education is high as a percent of GDP and government spending as compared to other developing economies and countries in the Western Hemisphere. Yet, public-private stakeholders in the context of Belize’s PSAR consultations identified improving the education system as a major challenge and priority for a public-private partnership calling into question the quality of Belize’s education system and its cost effectiveness. Concerning the quality of the education system, Belize’s system ranks well below Caribbean peers and above most Central American countries (Figure 50). On cost effectiveness, a 2002 World Bank report¹⁴³, suggests that there are internal efficiency challenges for Belize’s

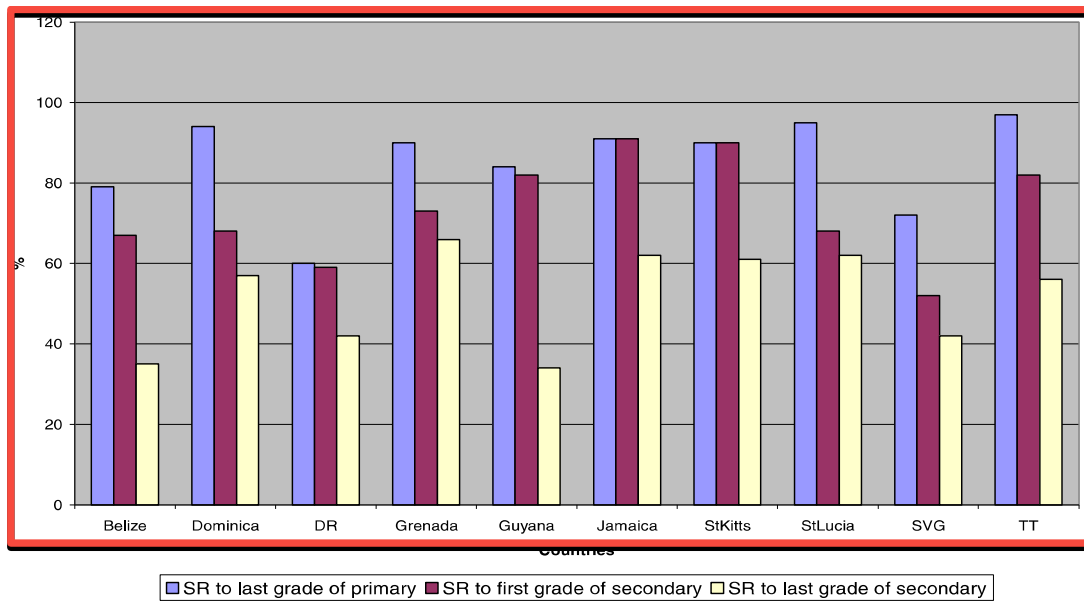
Figure 50. Quality of Education System, Belize and Peers



education system. That is, Belize has relative to Caribbean peers low survival rates to the last grade of secondary school from primary school (Figure 51). Moreover, drop out rates¹⁴⁴ are high and completion rates low (Figure 52).

Figure 51. Education Survival Rates, Belize and Caribbean Peers

143 Emanuela Di Gropella, *Monitoring Educational Performance in the Caribbean*, World Bank, 2002 pages 36-40.



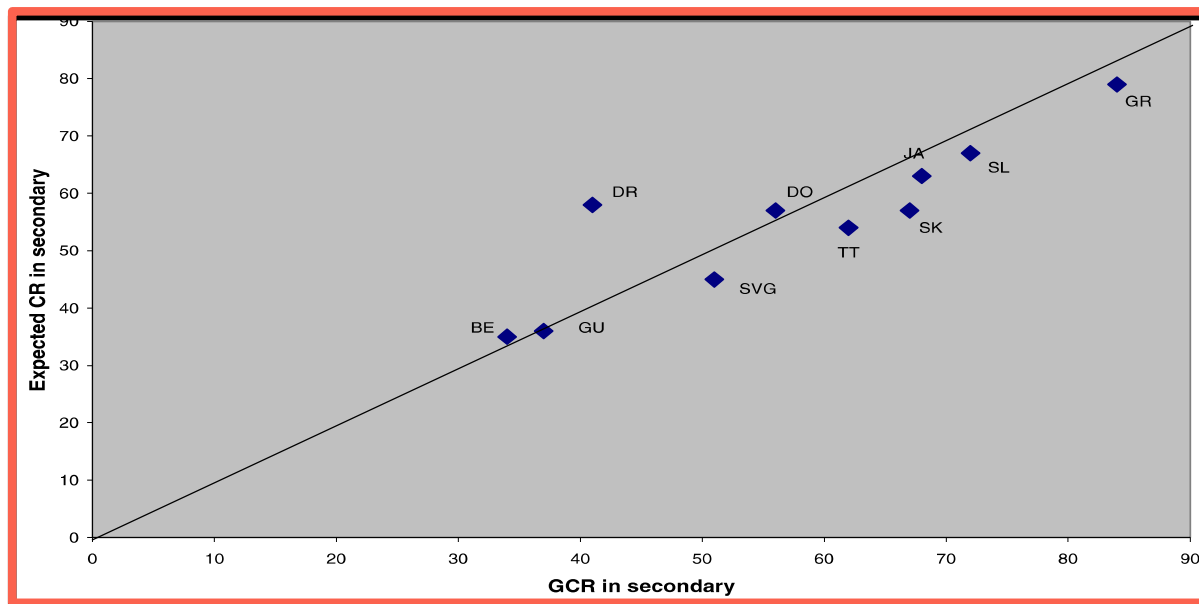
Source: World Bank, 2002.

Acknowledging the need to improve the skills of the labour force, centres for employment training were established. CET (the Centre for Employment Training), a private sector entity has been a leader for skill oriented training including for the tourism sector. CET centres are located in most districts in Belize. More generally, the concept of employment training sectors evolved into ITVETs or Institutes for Technical and Vocational Education and Training with ETES (Employment Training and Education Services) serving as the headquarters of all ITVETs. The mission of ITVETs is to “equip Belizeans with skills, knowledge, attitude, work ethics and credentials that will enable them to become gainfully employed.”¹⁴⁵ ITVETs provide trainees with access to skills, training and support services.

Figure 52. Completion Rates in Secondary Education, Belize and Caribbean Peers

¹⁴⁴ The proportion of secondary school age children that are out of school was about 30% in Belize in 2001 higher than the average for the region at that time (World Bank 2002 study).

¹⁴⁵ Ministry of Education.



Source: World Bank, 2002.

Currently there is an ITVET in each of the six districts of Belize. The major target groups identified include: high school graduates, fifteen years or older who have or have not completed primary education and/or secondary education, working population seeking skill upgrades and/or retraining for certification and a group of persons from industry or the community seeking customized training. With the establishment of call centres and other BPOs in Belize, ITVETs have recently focused training efforts aim at preparing Belize's labour force for employment in this sector.

More recently, efforts to improve labour force skills and to align these with broader national priorities have been launched in the context of Belize's first Small Business Development Centre (SBDC). The SBDC's core services is training including workshops which cover an array of topics aimed at facilitating the formalization of the operations of small businesses throughout Belize.

Finally, as part of the National Entrepreneurship Project of Belize, and in line with the country's small business development initiative training is being provided by a private sector company¹⁴⁶ to micro, and small businesses in Belize to help develop their capacity as well as to provide them with a gateway to access funds.

CHAPTER 3. SELECTING AND PRIORITIZING ISSUES

This section presents the priory issues for PSD that have been identified in this report and the Belize-DMX prepared independently. It is important to state that the set of priorities and the proposal for a PSD plan are preliminary suggestions that will be validated in June 2013 by stakeholders. It is expected that significant comments and suggestions would be provided by

146 P3 Ventures.

stakeholders that would be incorporated in the final version of this PSAR for Belize. It is also worth clarifying that this report, now and after validation, should reflect a process and therefore should be updated as often as stakeholders consider necessary.

In this context the Belize PSAR assesses that PSD as a concept and initiative is in its infancy in Belize. As indicated also in the Belize DMX and as confirmed by this report, there are coordination failures among and between PSD stakeholders at all levels. In addition, as Belize's DMX indicates, PSD related interventions—those that have an impact on regulations, permits and factors that affect doing business in Belize—represent only 1% of projects in Belize. In this regard, PSD constituents are recommended to "be aggressive in making the case for PSD".¹⁴⁷

This PSAR for Belize concludes that the largest challenge for PSD is to establish permanent mechanisms for a durable and systematic public-private dialogue and on-going follow up on agreed actions. In addition, given the resource constraints faced by both public sector and private sector stakeholders a second major proposal in this paper for consideration is for agreement on focusing on a few emerging and priority sectors along the lines of the selectivity employed in Costa Rica by CINDE. That is, an on-going public-private dialogue can help in identifying priority industries for concerted public-private action in the short to medium run supported by donors. No doubt there may be some discomfort with such an approach given the controversy around selective approaches. However, given Belize's market structure as well as institutional and market failures that are unlikely to be addressed in the short run a selective approach merits consideration. The evidence including from this PSAR process suggests that there is material doubt that markets in Belize would be an effective mechanism for the "discovery" of Belize's comparative advantage and in this respect Belize may be "condemned to choose".

The potential downside of such a selective strategy is that differential treatment—an uneven playing field—is becoming increasingly questioned by Belize's private sector and more broadly the society at large. The sectors that lose from selective policies, mainly MSMEs, would favour a more leveled field for all market participants instead of current practice of ad hoc tax breaks. Thus a policy to address MSME issues would also have a high priority to move in tandem with a selective approach. For example, an emphasis on improving the costs of telecommunications currently underway would likely benefit firms that use such services intensively (BPOs and tourism and other services) more than firms that use these services less intensively. The alternative strategy, to focus on improving certain aspects of the overall business climate by addressing the most damaging or problematic issues for the business climate, might have lower risks over the medium to long run but sacrifices immediate delivery of employment a critical short run issue in Belize.

The number of possible priorities for PSD in Belize is large. The priorities presented reflect an effort to select only those that have high value added (Tables 19, 20 and 21). Tables 1, 2, and 3 reflect those policies that may be implemented in the near term and for which implementation faces possible varying degrees of political opposition. The priorities are presented clustered around the following issues: (1) Articulating a vision and a durable framework for PSD; (2) improving the business climate for PSD; (3) facilitating the growth of fast and emerging sectors.

147 Belize DMX, page 6.

3.A.1. PRIORITY PSD ISSUES—A DURABLE FRAMEWORK FOR PSD

Table 19. Belize: Policy Interventions to Strengthen PSD Dialogue and Coordination

| Identified Constraint | Suggested Goal | Proposed Outcome | Specific Actions | Comments |
|---|---|--|--|--|
| PSD is in its infancy in Belize. There is a weak track record of public-private dialogue and partnership and a clearly articulated vision for PSD is required. | Strengthen and institutionalize public private dialogue and partnership. | Establish a mechanism for public-private partnership that articulates a vision for PSD and that transcends government changes. | Agree on the modalities for public-private dialogue and pass legislation to establish the EDC and Business Forum as permanent features in Belize. | BCCI White Paper, 2010 IDB Private Sector Assessment and this paper provide useful information on PSD and its potential role in Belize. |
| Need for improved coordination on PSD-related issues | Improve coordination for PSD. Establish a focal point for updating donor activity. | Help ensure that public-private partnership delivers results. | Strengthen policy-coordinating role of the newly appointed PSL in the PM's Office by providing staffing and technical support. | Establish systematic and goal oriented EDC meetings and produce annual reports outlining accomplishments. |
| Weak statistical database and lack of current information on the private sector including the number of firms, value added, and employment in particular for emerging sectors | Improve market efficiency. Improve coordination of donor support to enhance impact | Increased investment by domestic and foreign entities | The private sector can lead the effort to fill in data and information gaps with donor support along the lines of the initiative underway with the BCSP on the professional services sector. | The DMX for Belize provides inventory of donor-supported, PSD-related initiatives and as such fills one data gap. This needs to be regularly updated and shared. |

Table 20. Priority PSD Issues—Improving the Business Climate for

| Identified Constraint | Suggested Goal | Proposed Outcome | Specific Actions | Comments |
|---------------------------------|---|--------------------------------------|---|---------------------------------|
| Improve macroeconomic stability | Continued prudent fiscal and debt management policies | Increased investment and risk taking | Low budget deficits in real terms and borrowing on concessional terms | Improve macroeconomic stability |

| | | | | |
|---|--|---|---|--|
| Low financial intermediation and limited access to financial services. Poor risk assessment and lack of financial transparency. Heavy reliance on collateral instead of cashflow for lending. Bias in financing options against local firms. | Promote financial intermediation and lower cost of funds. Reduce uncertainty and stimulate intermediation Examine regulation and provisioning based on regional practices. | Increased investment, growth and monetized economy and greater confidence in the financial system | Identify source of high interest rates Create new products, initiatives and institutions to meet the demand for financing | IDB study on the cost of financing forthcoming. CBB initiative underway to establish credit bureaus and registries for movable property. |
| Inadequate labour force skills: current supply of skills and skill levels do not match current demand in the economy and concerns about aligning skills with current and future needs | Immediately focus on skill development on the job and via vocational training; and subsequently through the secondary and tertiary education levels. | Increase the quantity of high paying jobs for Belizean Nationals in emerging sectors such as tourism, ICT/BPO and educational tourism which also offer opportunities for up streaming into more skilled and higher paying jobs. | Strengthen private sector involvement in the development of training and education curricula Consider GOB work- subsidy programs for emerging and fast growing sectors such as BPOs. | The CET and ITVET models which have provided training for the tourism, BPO centres and other sectors are examples of successful initiatives. Such initiatives should be strengthened and expanded into other sectors with donor support. |
| <i>Inefficient public services delivery.</i> | Improve the quality of public services delivery | Increased private sector investment including FDI and overall increase in output and employment. | Implement public service reform based on public-private consultations underway. | There is currently a public-private dialogue underway on public service reform. The implementation of a public service reform will require significant resources and support. |
| Domestic markets are inefficient: large and medium businesses see the tax system as unfair and burdensome. | Improve the efficiency of domestic markets. Foster competitiveness and sustainable growth. | Tax reform measures implemented and increased investment | EDC to follow up on recommendations to be implemented for tax system reform. | Studies underway with IFI support (Belize Tourism Tax Study; the Cost of Fiscal Incentives Study, Tax Review). |

Table 21. Priority PSD Issues —Facilitating the Growth of Fast Growing and Emerging Sectors

| Identified Constraint | Suggested Goal | Proposed Outcome | Specific Actions | Comments |
|--|---|---|--|--|
| The lack of a policy on as well as the lack of an institutional framework or | Establish definitions of MSME and an institutional framework for MSMEs aimed at | Increase output, employment and investment via MSMEs. | Public-private collaboration is required to complete the diagnostic for MSMEs in process | There is a SME initiative led by BELTRAIDE establishing business support centres. This |

| | | | | |
|--|--|--|---|--|
| agency that supports MSMEs. | facilitating business support services. | | and agree on an action plan. Address cultural stigma attached to MSMEs through private sector led training programs. | effort needs to be strengthened including by establishing an agency that focuses on MSEs.. |
| Merchandise exports are biased toward primary and low value added products. | Expand Belize's merchandise export base by identifying and supporting emerging and fast growing sectors. | Investment by private and public sector in emerging sectors; diversify export base | Private sector to take the lead on designing strategies that promote export diversification; into agro processing. GOB focus on areas that need attention including the port, R&D, transport and infrastructure | Finalize NES. Review, rationalize and revise fiscal i and incentives for EPZ aimed at maximizing net benefit to the economy and stimulating exports. |
| Belize's services exports are both concentrated in the tourism sector and in visitor arrivals from the US. | Expand Belize's tourism and other services based exports supporting emerging and fast growing sectors. | Increase investment in the private sector including FDI. Increase the shares of non-agricultural and non-fuel products in exports. Increase female labour force participation by expanding and diversifying the services sector. | Agree on proposals to implement in support of emerging sectors including ICT/ BPOs, educational and medical tourism. Develop the long-haul visitor market | There will be other support required to for establishing emerging services sectors. This includes building the statistical database. The BCSP and BTB should be in the forefront of this effort. The NSTMP articulates a strategy for expanding the tourism product. |
| Poor capacity for innovation | Facilitate R& D | Greater innovation in the private sector as measured by greater diversified economy and export base. Decrease the contribution of primary products to GDP and exports. | Partner with relevant public sector stakeholders in particular MoTI/ BELTRAIDE and/or MoFED to design a demand driven fund to facilitate R&D. | A program supporting a Science, Technology and Innovation (STI) Strategy and action plan is to be initiated in May 2013. Additional support will be required. |

3.A.2 Priority PSD Issues—Filing in Data and Information Gaps

Gaps in information. Belize would benefit from addressing the following information gaps:

- A mapping of private sector activities by sector
- A mapping of private sector activities by size of business

- A mapping of financial sector products available to the private sector—such as banking services on factoring, secured transactions, discount of letters, long-term lending terms and options.
- A mapping of trade-related information relevant to companies in selected sectors for selected market—such as food safety concerns, standards and certification, trading mechanisms and timing, costs
- A complete description and analysis of labour markets
- A complete description and analysis of registries, real estate and movable property
- A complete mapping of licensing requirements by sector.

3.B. ACTION PLAN FOLLOW UP AND MONITORING

The proposed action plan is summarized in Figure 53. The Belize-PSAR suggests that the recommendations for priorities presented in this report are discussed in Belize in June. Ownership of the process fully rests on stakeholders, therefore during the visit in June we expect to accomplish the full definition of the first and second stage of the process as defined in the figure. It is also important to note that, in addition to the definition of priorities, we expect that stakeholders will also agree on a plan to prioritize filling in data and information gaps. As it is noted in this report, there are many data gaps that need to be filled with primary data collection. The donor community can play an important role in funding data collection.

Figure 53: Belize: Suggested framework to achieve reforms

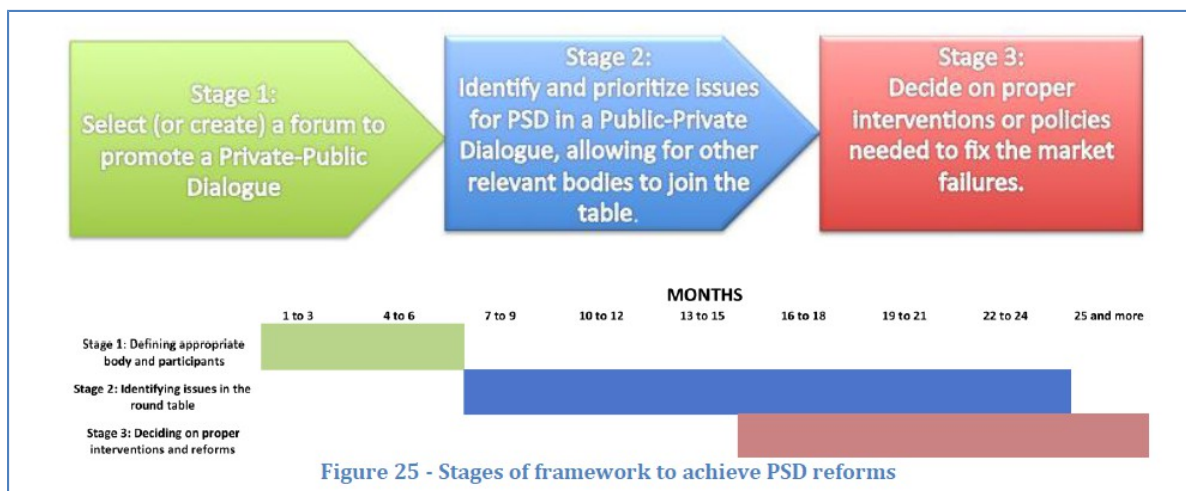


Figure 25 - Stages of framework to achieve PSD reforms

Source: Guide for Private Sector Assessment Report (PSAR) in the Caribbean Countries. Version 1.2. Inter-American Development Bank, 2011

In general monitoring and evaluation of PSD programs and projects is limited. The donor community and private sector stakeholders recognize the importance of monitoring and

evaluation of results. However, the vast majority of projects are too small and does not leave room for proper monitoring and evaluation mechanisms. Improved coordination among the donor community and private sector stakeholders would significantly improve monitoring and evaluation if agreements about investing in data collection and analysis can be reached, and resources may be pooled for this purpose.

The PSAR/DMX includes the definition and creation of databases for future monitoring and evaluation of results of both instruments. These instruments are powerful tools for the selection of priority interventions to support PSD, as well as for the coordination of on going and future programs and projects. Of particular interest is to be able to determine savings related to improved coordination when donors jointly focus their work programs, and on results related to more focused and larger PSD interventions. As already noted in the introduction, the DMX guidelines note: *“The contrast between what is currently being supported by the donor community identified in the DMX, and what should be supported identified in the PSAR, is an important input for the definition of PSD programs and projects, and for improved coordination between government, stakeholders and the donor community.”* Therefore, the final report will include a selection of baseline indicators for future PSAR/DMX monitoring of results as they relate to coordination and focus of PSD initiatives. Table x provides lists of indicators to be used in the final PSAR/DMX report.

Table 22. PSAR Monitoring Indicators

| Purpose of the PSAR | Indicator | Output | Outcome |
|---|---|--------|---------|
| Overall characteristics of the economy in relation to PSD | General macroeconomic indicators, such as total and private sector real growth, inflation, total and private sector employment, private sector exports as a percentage of total exports | | X |
| | Competitiveness indicators as presented in the World Economic Forum Global Competitiveness Index and the World Bank Ease of Doing Business Reports | | X |
| Identification of PSD priorities | Short selection of PSD priority areas that merit support from the donor community | X | |
| Increased focus on PSD support from the donor community | Average size and number of programs and projects | X | |

| | | | |
|---|---|---|---|
| Identify duplication and overlapping initiatives to improve efficient private sector support by the donor community | Number and amount of programs and projects that duplicate or overlap initiatives | X | |
| | Number and amount of programs and projects that have been merged/consolidated | | X |
| | Number and amount of new multi-donor efforts in areas in which duplication or overlapping had been identified | | X |

Annex I. Schedule of Consultations Private Sector

| Stakeholders | Representative |
|---|--|
| B-Oil Belize | Graham Herbert, Owner |
| BelNaRM Strategies | Osmany Salas |
| Belize Bank | Lyndon Guiseppi, Chairman |
| Belize Business Bureau | Arturo Lizarraga, President |
| Belize Chamber of Commerce and Industry | Kay Menzies, President, Kim Aikman, Chief Executive Officer (CEO) |
| Belize Coalition of Service Providers | Sue Courtney, Executive Director Linsfield Coleman, Economist |
| Belize Offshore Practitioners Association | Chris Coye |
| Belize Credit Union League | Corine Fuller, Executive Director |
| Belize Tourism Industry Association | Jim Scott |
| Land Rover Belize, Ltd. | Graham Herbert, Managing Director |
| Motor Solutions Ltd. | John Banman, CEO |
| Port of Belize | Arturo Vasquez, CEO |
| Nahil Mayab Restaurant & Patio | Osmany Salas |
| Radisson Fort George Hotel and Marina | Jim Scott |
| Toucan Education Programs, Ltd. | Rhondine Petrof, Executive Director |

Public Sector

| Stakeholders | Representative |
|---------------------|--|
| Belize City Council | Mayor Darrell Bradley Roger Espejo |
| BELTRAIDE | Nick Ruiz, Executive Director (ED) Leija Melanie Gideon, Deputy ED Michele Young, Director, Business & Investment Facilitation |

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|---|---|
| Central Bank of Belize | Glen Ysaguirre, Governor Azucena Quan-Novelo, Director Ambrose Tillett, Energy Director |
| Ministry of Energy, Science & Technology and Public Utilities | |
| Ministry of Finance and Economic Development | Yvonne Hyde, CEO |
| Ministry of Labour, Local Government, Rural Development, NEMO and Immigration | Ivan Williams, Labour Commissioner |
| Ministry of Tourism and Culture | Tracey Taegar-Panton |
| Ministry of Trade, Investment Promotion, Private Sector Development and Consumer Protection | Michael Singh, CEO |
| Ministry of Works and Transport | Eric Gentle, CEO Lennox Bradley, Chief Engineer |
| Office of the Prime Minister | Amparo Masson, Director, Public- Private Sector Dialo |

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