

BELIZE – EUROPEAN COMMUNITY

Country Strategy Paper
and National Indicative Programme
for the period 2002 - 2007

The Government of Belize and the European Commission hereby agree as follows:

- (1) The Government of Belize, (represented by <name and title>), and the European Commission, (represented by <name and title>,) hereinafter referred to as the Parties, held discussions in <place> from to with a view to determining the general orientations for co-operation for the period 2002 – 2007. The European Investment Bank was represented at these discussions by <name and title>.

During these discussions, the Country Strategy Paper and an Indicative Programme of Community Aid in favour of Belize were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000. These discussions complete the programming process in Belize.

The Country Strategy Paper and the Indicative Programme are annexed to the present document.

- (2) As regards the indicative programmable financial resources, which the Community envisages to make available to Belize for the period 2002-2007, an amount of € 7.8 million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation) and of € 1.0 million for the allocation referred to in Article 3.2 (b) (B-allocation). These allocations are not entitlements and may be revised by the Community, following the completion of mid-term and end-of-term reviews, in accordance with Article 5.7 of annex IV of the ACP-EC Partnership Agreement.
- (3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The indicative programme under chapter VI concerns the resources of the A-allocation as well as uncommitted balances of former EDFs, for which no projects and programmes have been identified under the respective National Indicative Programmes. It also takes into consideration financing from which Belize benefits or could benefit from under other Community resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget; contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings.

The B-allocation shall be triggered according to specific mechanisms and procedures and does therefore not yet constitute a part of the indicative programme.

- (5) Pending the entry into force of the Financial Protocol of the ACP-EC Partnership and within the framework of the present Country Strategy Paper and Indicative Programme, financing decisions for projects and programmes can be taken by the Commission at the request of the Government of Belize, within the limits of the A- and B-allocations referred to in this document and under the condition that sufficient resources are available in the general reserve of the eighth EDF.

The respective projects and programmes shall be implemented according to the rules and procedures of the Eighth EDF until entry into force of the Financial Protocol for the Ninth European Development Fund.

- (6) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 3 (a) and 4 of the Financial Protocol of the ACP-EC Partnership Agreement (see Paragraph 5.7 for further details).
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall annually undertake an operational review of the Indicative Programme and undertake a mid-term review and an end-of-term review of the Country Support Strategy and the Indicative Programme in the light of current needs and performance.

The mid-term review shall be undertaken within two years and the end-of term review shall be undertaken within four years from the date of signature of the Country Support Strategy and the National Indicative Programme. Following the completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in light of current needs and performance.

- (8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the ACP-EC Partnership Agreement, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicate the contrary before the end of this period.

Signatures

For the Government of Belize

For the Commission

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PART A

COUNTRY STRATEGY PAPER

GLOSSARY OF TERMS

ACP	African, Caribbean and Pacific Group of Countries
ASWAP	Agriculture Sector-Wide Approach Programme
CABEI	Central American Bank for Economic Integration
CARICOM	Caribbean Community
CBO	Community Based Organizations
CDB	Caribbean Development Bank
CDC	Commonwealth Development Corporation
CDE	Centre for Development of Enterprises
CPA	Country Poverty Assessment
CSS	Country Support Strategy
CTA	Centre for Agriculture and Rural Cooperation
DFC	Development Finance Corporation
EC	European Community
EDF	European Development Fund
EIB	European Investment Bank
EU-ACP	Partnership Agreement between the African, Caribbean and Pacific Group of States and European Community and its Member States
EU	European Union
FAO	Food & Agriculture Organization
FTAA	Free Trade Area of the Americas
FY	Fiscal Year
GDP	Gross Domestic Product
GoB	Government of Belize
HDI	Human Development Index (compiled by UNDP)
IDB	Inter-American Development Bank
IBRD	International Bank for Reconstruction & Development
IFAD	International Fund For Agriculture Development
IMF	International Monetary Fund
NAO	National Authorizing Officer
NGO	Non-governmental organization
NIP	National Indicative Programme
NSA	Non-State Actors
OAS	Organization of American States
OPEC	Organization of Petroleum Exporting Countries
PUP	People's United Party
PSIP	Public Sector Investment Programme
ROC	Republic of China
SICA	Central American Integration System
UK	United Kingdom
UK-DFID	UK - Department for International Development
UNDP	United Nations Development Programme
WB	World Bank
WTO	World Trade Organization

MAPS OF CENTRAL AMERICA AND BELIZE

1. Map of Central America



2. Map of Belize



Executive Summary

This Country Support Strategy (CSS) presents the framework, which will govern the European Commission's development co-operation with Belize for the period 2002-2007, in the wider context of the implementation of the ACP-EU Partnership Agreement, signed in Cotonou on 23rd June 2000. The preparation of this CSS was carried out by a "Programming Task Force" appointed by the Ministry of Finance of the Government of Belize (GoB), composed of representatives from the public and private sectors, as well as of civil society. The Task Force received support from the European Commission Delegation to Jamaica and Office in Belize. The preparation of the CSS was formally undertaken during the period 6 February to 20 August 2001.

The CSS reviews Belize's development strategy, examines the political, economic and social situation in Belize, discusses past co-operation programmes funded by the EC and summarizes programmes supported by development co-operation partners in the form of a donor matrix.

The most serious threat to Belize's ambition of achieving a greater standard of living for its people is the rising incidence of poverty. For this reason, the GoB has committed itself to a poverty reduction strategy and action plan designed to see marginalized populations enter the mainstream of economic activity.

The EC response strategy emanates from a consultative process among representatives from the Government of Belize, civil society, and the private sector. This dialogue identified the economic and social challenges facing the country of Belize, analysed the programmes being implemented by other development cooperation partners, and focused on areas of comparative advantage enjoyed by the EC in its assistance programmes in Belize.

The focal area of the EC Support Strategy for Belize will be the agricultural sector while overall institutional capacity building of the public administration will constitute the non-focal area. Within the focal area, two main strategic components are identified for EC intervention:

- 1) Capacity strengthening for enhanced decentralised partnership with local communities and marginalized groups
- 2) Development of the productive sector with effective participation of the private sector

The indicative programme of 7.8 Million is distributed as follows:

Focal Area	Envelope A
Rural development with focus in agriculture	7.0
Non-Focal Area	
Public Administration	0.8
Grand Total	7.8

1. EC co-operation objectives

In accordance with Article 177 of the Treaty Establishing the European Community, community policy in the sphere of development co-operation shall foster:

- The sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- The smooth and gradual integration of the developing countries into the world economy;
- The campaign against poverty in the developing countries.

These objectives have been confirmed and reinforced in Article 1 of the ACP-EU Partnership Agreement, signed in Cotonou on 23 June 2000, which puts main emphasis on the objective of reducing and eventually eradicating poverty. Co-operation between the European Community and Belize shall pursue these objectives, taking into account fundamental principles laid down in Article 2 of the Agreement – especially the principle of encouragement of the development strategies by the countries and populations concerned - and essential and fundamental elements as defined in Article 9.

In their Statement on the European Community's Development Policy of 10 November 2000, the Council of the European Union and the European Commission determined a limited number of areas selected on the basis of their contribution towards reducing poverty and for which Community action provides added value: link between trade and development; support for regional integration and co-operation; support for macro-economic policies; transport; food security and sustainable rural development; institutional capacity-building, particularly in the area of good governance and the rule of law. The Statement also specifies that in line with the macro-economic framework, the Community must also continue its support in the social sectors (health and education), particularly with a view to ensuring equitable access to social services.

The Treaty establishing the European Community foresees that the Community and the Member States shall co-ordinate their policies on development co-operation and shall consult each other on their aid programmes, including in international organisations and during international conferences. Efforts must be made to ensure that Community development policy objectives are taken into account in the formulation and implementation of other policies affecting the developing countries. Furthermore, as laid down in Article 20 of the Agreement, systematic account shall be taken in mainstreaming into all areas of co-operation the following thematic or cross-cutting themes: gender issues, environmental issues, institutional development and capacity building.

The above objectives and principles, as well as the national policy agenda presented in the next chapter constitute the starting point for the formulation of the present Country Strategy Paper, in accordance with the principle of national ownership.

2. The policy agenda of Belize

2.1 Introduction

The policy orientations, strategic agenda and sectoral priorities of the Government of Belize (GoB) are described in its Medium Term Economic Strategy Paper 2000-2002 (adopted in May 2000), the National Poverty Elimination Strategy and Action Plan 1998-2003 (adopted in December 1998); and the Post Keith Recovery Management Strategy (adopted in November 2000).

2.2 Strategic objectives

Belize's Medium Term Economic Strategy aims at achieving sustainable development, ensuring that all segments of the population benefit as the country implements sound and comprehensive socio-economic strategies to achieve broad-based economic growth. Poverty reduction forms the centrepiece of the Government's economic development strategy, which is seeking to bring vulnerable groups into the mainstream of economic activity.

In this context, the policy agenda of the Government focuses on enhancing and sustaining economic growth, improving access to quality social services, modernising the State and improving governance, implementing policies and measures for environmentally sustainable development and ensuring safety and security in Belize.

2.3 Fight against poverty

The Country Poverty Assessment (CPA) conducted in 1995/96 revealed that 33% of the population fell below the poverty line. The rural areas had 42.5% of their households living below the poverty line, while the urban areas had 20.6%. Young people, the elderly, the disabled, and female-headed households were the social groups most vulnerable to poverty. Of those defined as poor, 13.4% were deemed to be "extremely poor."

The National Poverty Elimination Strategy and Action Plan 1998-2003 concentrates investments in the following directions: to support economic growth/income generation and sustainable livelihoods; to promote human capital through education & training; to strengthen health services and health care delivery; to address housing shelter and human settlement; to cater for social vulnerability and safety nets; to ensure protection & conservation of the environment.

2.4 Protection of the environment

The GoB intends to set up a programme of policy reforms, institution building, studies, and investment that will improve the state of the environment of Belize and maintain the country on its path of sustainable development. Key issues such as water resource management and solid waste management will be reviewed. The Forest Act, the National Park System Act, the Wildlife Act, and other legislation will also be amended to address the current situation in Belize. Meanwhile, the Environmental Impact Assessment (EIA) process is to be strengthened to ensure sound investment. Adoption of clean technologies will be encouraged through the granting of fiscal incentives. The Government also intends to develop a conservation strategy for tourism with guidelines for coastal zones management as it fully appreciates the relationship between the

preservation of Belize's environment and further development of its tourism industry, an area with substantial growth potential. In 2001, a 1% environmental tax has been introduced on the CIF value of all imports (except essential food and medical goods) in an effort to collect resources for environmental protection. A Land Administration Project, funded with a contribution from the IDB, shall attempt to resolve issues related to land use and titling, which are critical to development and environment conservation.

2.5 Agriculture and rural development

The GoB is firmly committed to sustainable rural development and sees the agricultural sector (including livestock and fisheries) as providing the economic base for enhanced economic growth of the country, in particular of the rural areas, whilst contributing to poverty alleviation. The agricultural and food policies are accordingly designed to make the agricultural sector more efficient and competitive, while at the same time, contributing to the improvement of the economic and social well-being of the population.

The overall Government's agricultural policy is based on the following broad objectives:

- Promoting sustainable agriculture and rural development.
- Increasing the efficiency and competitiveness of the agricultural sector as a whole.
- Accelerating diversification in the production of exports.
- Increasing food production, enhancing food security and improving the nutritional status of the population.
- Improving income generation, distribution and equity with enhanced participation of small producers, communities and indigenous groups.
- Strengthening inter-sectoral linkages, in particular with the social sectors of health and education, as well as with the strategy and action plan for poverty eradication.

2.6 Trade policy

The main objectives of Belize's trade and investment policies are to expand and diversify domestic production through greater access to world markets, to improve the country's integration into international economy, and to continue efforts for enhanced regional integration within the Caribbean, Central America and wider American hemisphere. Establishing a negotiating capacity to meet these challenges becomes a key concern in this connection. The GoB has established two quasi-government institutions namely BELTRAIDE, responsible for trade/investment promotion and trade negotiations, and the Belize Commodities Secretariat, in charge of facilitating policy implementation in response to changing external markets for the three main commodities (citrus, sugar and bananas). A National Trade Negotiation Commission, based in BELTRAIDE, has overall responsibility for co-ordination of trade policy formulation and implementation.

Belize is a member of the World Trade Organization (WTO). Belize is also a full member of the Caribbean Community (CARICOM) and actively participates in the ongoing process of treaty revision, leading to a CARICOM Single Market and Economy. In December 2000, Belize joined the Central American Integration System (SICA), an institution that works towards closer political and economic ties in the region. Discussions have also begun regarding Belize's possible membership in the Central American Bank for Economic Integration (CABEI). This bank serves as a major support mechanism for the sustainable economic development and integration of the Central American region.

2.7 Social sector

Health: Government intends to raise the health status of the population, particularly the poor and disadvantaged, through increasing efficiency, equity, quality of health services and promoting a healthy lifestyle. The Government also continues to implement a Health Sector Reform Project that will improve the management and delivery of health care to all segments of the population. To address problems of access of services to Belize's small and dispersed population, Government is proposing to establish a national health insurance scheme as part of the National Health Reform Programme.

Education: Government understands the importance of education in shaping the future of Belize's very young population. It also recognises that there must be an improvement in efficiency of provision of basic education, an increase in the number of classroom spaces, and easier access to spaces by disadvantaged students. With this in mind, a national education task force developed an education sector strategy. In 1999, the task force completed and delivered the strategy entitled "Transforming Education in Belize for the 21st Century". This strategy has as its main objective to address policies to improve equity, access, efficiency, and relevance to education services.

2.8 Institutional reform

The Government established in 2000 the Ministry of Civil Society. The civil society of Belize has the potential for greater partnership and involvement in the design and implementation of the country's development strategies, as well as for constituting a bridge between the Government, the donor and lending agencies, and the communities. Furthermore, the Public Sector Reform Commission was established in 2000, with a view to guide and monitor the reform of public services, in an attempt to promote greater accountability and efficiency. In June 2001, a Constitutional Amendment Bill was introduced to the House of Representatives as part of the process of political and judicial reform.

3. Analysis of the political, economic and social situation

3.1 Political and governance context

Internal Context: Belize gained its independence from the United Kingdom on September 21, 1981 and is governed by the principles of a representative democracy with a bicameral legislature based on the Westminster model.

The country is confronted with the challenge of strengthening the legislature, the judiciary, local government; of improving the efficiency and accountability of the public sector, and of enhancing the participation of the society in the political debate, as well as in economic development.

Since coming to power in 1998, the current PUP Government has begun a number of reforms with a view to modernising the State and improving governance, in accordance with its political agenda. These reforms included the introduction of direct elections at the community level, the delegation of increased autonomy and authority to local governments (the Town Council Act and Village Councils Act were enacted in 1999); and the introduction of referenda for matters of national importance, the appointment of a Contractor-General and an Ombudsman. These measures are expected to facilitate the empowerment of local communities to directly elect their leaders and control local planning processes. This development should help to create greater community ownership for community based development strategies and initiatives.

In January 2000, the Political Reform Commission raised concerns about a number of issues, including the excessive centralisation of power in the prime minister's office and the cabinet; the ineffectual separation of powers between the executive, the legislature and the judicial system; the lack of efficiency and accountability of public officials; as well as the lack of regulation both of campaign finances and of the activities of political parties related to the political institutions. In June 2001, a Constitutional Amendment Bill was introduced to the House of Representatives. The most significant proposed change to the Constitution relates to the Senate, which is to become more inclusive, through the appointment of four non-party senators, in order to reduce, in theory, partisanship, and to broaden legislative debate. The proposed amendments would also strengthen protection against discrimination on grounds of disability and gender. Legislation introduced earlier in 2001 strengthened recognition for ethnicity and rights to basic education and healthcare, along with voting rights and the recognition of indigenous people. Furthermore, a Public Sector Reform Commission was also established, with a view to guide and monitor the reform of public services, in an attempt to promote greater accountability and efficiency.

The challenge ahead for enhanced political environment: Strong political commitment and additional reforms are still needed to strengthen the public sector and achieve better governance through enhanced efficiency, accountability and transparency, as well as reduced exposure to pressures for bribery, possible money laundering and drugs trafficking. The achievement of these reforms shall require continuous training and capacity building in the public and the private sectors, as well as enhanced public-private collaboration.

Three fundamental problems affect human rights and reduce the quality of administration of justice in Belize: delays in bringing cases to full completion, the citizen's poor perception of the justice system as being fair, and limited access to justice for the poor, women and disadvantaged groups. The Government is currently negotiating with the Inter-American Development Bank a "Programme for Improving the Administration of Justice", which should aid in improving the administration of the judicial system, reducing delays in bringing cases to full completion, enhancing public confidence in the system, and increasing access of disadvantaged groups to legal representation.

This most recent initiative of the Government, translates its commitment for improved democratic rules and institutions, which is consistent with the objectives of the Cotonou Agreement, in terms of promoting a stable and democratic political environment.

External Context: Belize's external relations have been dominated by a territorial dispute with Guatemala, whose claim to the whole of Belize continues to cause tension between both countries. Both Belizean political parties are committed to an amicable settlement of the long-standing Belize-Guatemala territorial dispute. Recently, Belize and Guatemala agreed to a facilitation process through the office of the Secretary General of the OAS to discuss a peaceful resolution to the territorial dispute. The Facilitators are to present their proposals for a comprehensive and definitive resolution to the territorial dispute during the first quarter of 2002. Since February 2001, the Facilitation Process has been effective in establishing and maintaining tranquillity, as well as stability in the relations between the two countries.

3.2 Economic analysis

3.2.1 Structure of the economy

Belize, with a population of about 250,000, has an economy that is predominantly oriented towards agriculture, forestry and fisheries, which all together directly contributed to 21% of GDP in 2000. Economic performance is primarily dependent on exports of sugar, bananas, and citrus. More recently, Belize's economy has diversified into tourism, other services (including financial services) and aquaculture.

To sustain economic and social progress in the face of a rapidly changing external environment, Belize now needs to improve its international competitiveness in traditional exports while consolidating economic diversification. However, several constraining factors, such as small production volumes, erosion of preferential market arrangements, susceptibility to natural disasters, oligopolistic structures in several markets, limited human resource and administrative capacity, the high cost of public services and utilities, and insufficient concessionary loan and grant financing, are making the challenges more difficult. On the basis of the analysis of Belize's economic structure and performance, **the sectors that show the greatest promise are agriculture and the services sectors** (tourism and financial services). In Belize, the process of economic transition has only just begun and the livelihood of those most at risk to poverty still depends greatly on agriculture and non-farm activities that are agriculture-related (tourism and processing).

3.2. Economic performance

Economic performance, since independence, highlights the typical characteristics of a small open economy: highly **vulnerable to external shocks** (departure of British Troops in 1994, for example); **productive base is limited** to the production of a few agricultural commodities (sugar, citrus and bananas); **private sector is small** and behaves frequently in a **monopolistic** manner; heavily **dependent on a few export markets** through preferential markets with the USA, CARICOM and EU.

For the past three years expansionist fiscal policies helped the country to achieve high growth while exchange rate mechanism (pegged to US \$) and restrictive monetary policy contributed to an inflation-free domestic environment. However, internal and external imbalances worsened considerably and made it compulsory for the authorities to introduce as of mid-2001 a policy of fiscal prudence.

3.2.3 Poverty and access to social services

Since attaining independence in 1981, Belize has had consecutive years of economic growth leading to overall improvements in living standards for a large portion of the population. Life expectancy at birth increased from 67 years in 1981 to 75 years in 1996, and infant mortality decreased from 35 per thousand births in 1981 to 26 per thousand births in 1996. Poverty is predominantly a rural condition, with 43 % of the rural population and 21% of urban dwellers falling below the national poverty line. Incidence of poverty is greatest in the Toledo District, with its heavy concentration of indigenous Maya, where 40% of households and 47% of the population are classified as extremely poor (below US\$ 1/day). Maya settlements experience the highest rates of poverty nationally, with 66% being defined as poor and 30% as extremely poor. Cayo district also experiences severe levels of poverty with 20% of the population classified as extremely poor.

Groups considered especially vulnerable to poverty include children and young people, the elderly, the disabled, female-headed households, small farmers, landless labour and indigenous Maya. The causes of poverty are predominantly economic, stemming primarily from unemployment, low productivity and low earnings. The level of education and size of household also have major influence on poverty.

Poor people in Belize typically have low or lower level of education, poor health, insecure access to natural resources (land, aquatic resources and forest), inadequate access to financial services, whilst facing high cost of transportation and public utilities, relative to their income. They are particularly vulnerable to the effects

of global market liberalisation, which might impact on employment opportunities for poor people.

An expanding population and a possible deterioration of the macro-economy increase poor people's vulnerability to unemployment. Belize committed itself to the absorption and integration of a substantial number of refugees seeking refuge from political persecution, social and economic hardship in neighbouring countries (60,000 migrants representing almost 25% of total population). As a result, the country has provided many immigrants with land and rights to work, whilst transforming their legal status through conferring Belizean citizenship or resident permits. Immigrants make up approximately 20% of the poor in Toledo and Cayo districts, and nearly 40% of poor people in Stann Creek districts. Still, seasonal migrant workers provide labour for the citrus and banana industries, in the southern part of the country, and are more vulnerable to external shocks affecting the economy.

3.2.4 Agriculture

Agriculture continues to form the bedrock of Belize's economy, with potential for further development. Agriculture (including fisheries & forestry) amounts to about 21% of GDP and over 86% of total export earnings (in 1985 only 70% of export earnings could be attributed to agriculture). In 2000, 34% of GDP and 41% of total employment was directly dependent on agricultural production, including fisheries, forestry and the food processing industry. Citrus and banana, two of the major traditional crops, registered strong production growth in 2000, up by 17% and 21%, respectively. All three of the major traditional exports (citrus, sugar and bananas) experienced declining prices over the last years, but there are signs of a slow upward trend. Long-term markets will depend significantly on the pace and depth of liberalisation. Non-traditional agriculture fared off well. Papaya production increased by 33% and marine production increased by 21.3% over 1999, the latter primarily because of expansions in the shrimp farming industry.

The Government seems strongly committed to achieving the objective of modernising and diversifying agricultural production in a sustainable manner, so as to be able to stay competitive in increasingly globalised markets. It has engaged in supporting various programmes and projects aiming in this direction, together with the private sector, local communities and with support from various agencies. Local production of food crop also benefits from tariff protection or temporary bans on imports (during crop season).

The Medium-Term Development Strategy 2000-2003 for the "Agriculture, Fisheries and Cooperative Sub-Sectors", upon which above policies and priorities are based, shall need to be updated in the light of recent studies related to rural livelihoods and in order to take into account the lessons learned from two major hurricanes in less than one year (Keith in September 2000 and Iris in October 2001). Links also need to be established with the respective strategies for the main commodity sectors of banana, citrus and sugar, which are stressed in a context of eroding preferential markets.

3.2.5 Tourism

The tourism industry continued to show great promise in 2000. Visitor arrivals were up by 8.1%, occupancy rates have increased from 31% to over 44% and the number of cruise ship visitors has increased by 53%. Continuous growth of tourism requires Belize to implement an economic policy that would provide incentives for further investment in the tourism industry and that would continue to improve the overall enabling environment to sustain such investment. In this context, the services in general continue to show encouraging signs. Growth has been largely due to increases in tourist arrivals and expansions in the finance and insurance industries. With the Government further investing in improved transport infrastructure,

telecommunication and other incentive measures, the sector should benefit from a favourable environment for further growth, despite the drop following the terrorist attacks of 11 September 2001.

3.3 Sustainability of current Government policies

The overall political agenda of the Government and main sectoral strategies (poverty reduction, agriculture and rural development, tourism, health, education and infrastructure) describe a set of clear orientations containing strong policy statements on fight against poverty and on private sector development

However, these documents do not provide for clear priorities beyond the needs and consensus around a short to medium-term political agenda. The fight against poverty often requires a holistic approach, based on a clear long-term vision of the future of the society, defining the key macroeconomic and sectoral policy targets and identifying the essential measures on how to integrate the rural communities and poor into productive economic activities.

In practice, the actions of the Government and public sector in general, often reflect some inconsistencies, which tend to reduce the expected results and impact of investments. Most inconsistencies seem to result from a weak institutional framework, with over-centralized decision making, unsatisfactory level of communication and co-ordination and regular loss of institutional memory. In this context, the Government should continue to design and implement measures aiming at improving the performance of public services.

The achievement of sustained economic growth depends to a large extent on careful management of macroeconomic policy. Recent trends in fiscal performance, excess liquidity and levels of external debt obligations, require continuous attention and corrective measures if the right incentives are to be provided in support of the fight against poverty, as well as for establishing an appropriate enabling environment for enhanced private sector investments. In this context a comprehensive analysis of the financial sector in Belize should be undertaken, in order to discuss the feasibility of financial sector liberalisation and to define appropriate measures and incentives to achieve the reduction of interest rates.

In this area, the Government should establish more regular dialogue not only with donor and lending agencies but also with local development partners of the private sector and civil society with a view to discussing constraints and policy. This will not only improve the transparency of the measures that shall eventually be taken but also strengthen the sense of shared responsibility and ownership in decision-making.

3.4 Challenges for economic and social development

3.4.1 Challenges for economic development

Economic policies: The main challenge confronted by Belize, in terms of economic policy, will be to implement the right mix of measures and to manage the economy in such a way as to sustain real economic growth, at a level which would contribute to create employment and facilitate further improvement in the living conditions and well-being of all Belizeans. In the area of macro-economic policy, as recently confirmed during the IMF 2001 Article IV Consultation with Belize, the challenge will be dual: (1) in establishing stable and sustainable internal balances through appropriate fiscal policy; and (2) consolidating and maintaining external balances while facing the loss of protected markets for main exports. Sound and credible management of public finances, mixed with adequate monetary policy, increased private sector participation and investment, will be critical requirements to confront those challenges.

The achievement of the Government's economic development objectives is confronted to three major issues, requiring attention and corrective measures: (a) the stagnating performance of exports and tourism flows in terms of percentage share of GDP; (b) the fiscal performance, excess liquidity and external debt obligations; and (c) the small size of the financial sector and high interest rates.

Agriculture: The main challenges and constraints facing the development of the agricultural sector may be described as: low labour productivity relative to wage rate, lack of credit lines designed to meet the needs of small farmers, inability to capture a significant share of the tourist and the non-traditional agro-processing sector, costly and/or poor infrastructure, a poorly organised marketing system for agriculture produce, a small-scale agriculture that remains uncompetitive and continues to be marginalized, complete dependence on rainfall by small farmers, limited research and development on crops of interest to small farmers, outdated production practices and technology, limited land titles especially among small farmers, a need to maintain a high levels of agriculture health, lack of supportive services and lack of an integrated macro-sector development policy for small-scale agriculture and agro-processing, and little success in diversifying the portfolio of the small farming sector.

Belize needs to improve productivity and competitiveness in traditional agriculture, whilst diversifying further into promising non-traditional agriculture and agro-industry with a potential for exports or imports substitution, in order to compensate for the losses of income/employment likely to follow as its preferential trading arrangements are being eroded.

Trade issues: World-wide trends towards greater trade liberalisation will continue to place an inordinate amount of pressure and challenge on small vulnerable economies, as in the case of Belize, to rapidly prepare their productive sectors to face increased competition. Other challenges and opportunities will also arise from the ongoing negotiations of the Free Trade Areas of the Americas (FTAA) in which Belize has taken the leading role in advocating for a special status for small economies. Bilateral trade negotiations on a product-specific basis are also ongoing with Belize's immediate neighbour, Mexico. Through the CARICOM framework in the first instance, Belize hopes to integrate gradually into and be an effective partner in the increasingly globalised economy.

The negotiation of an Economic Partnership Agreement with the European Union is considered as a serious challenge, which would oblige the Country to better understand its position as a bridge between the Caribbean and Central American Regions. EPA negotiations require a thorough analysis and definition of Belize's position, based on its potential for regional integration and cross-Atlantic trade to the EU. Progress on trade policy and trade matters is predicated on the quick development of necessary capacity to deal with the crucial issues coming up on the international or regional trade agenda, such as market access, subsidies and support, sanitary and phytosanitary standards, competition policy, negotiation on agriculture and services, intellectual property rights, and issues characteristic of small economies like Belize.

3.4.2 Challenges for social development

Poverty: Recently, the UK-DFID Livelihoods Analysis Mission Team has identified four main issues contributing to the vulnerability to poverty: (a) insecure access to land and natural resources, (b) poorly functioning markets, (c) low quality of education and limited awareness of rights; and (d) inadequate financial services for the poor, especially savings and insurance. The success of the national poverty eradication strategy is also linked to the adequacy of the macroeconomic policy and performance, as well as to the level of decentralisation and participation applied to its effective implementation.

The integration in Belize of a substantial number of immigrants from neighbouring countries also constitutes a challenge in terms of meeting additional needs for education, housing, social services and securing employment.

Gender issues: Three main issues affect gender relations in Belize: domestic violence, higher unemployment of women and poverty of women-led households. Over the past three years, gender issues became more prominent in the dialogue between the Government and the society at large. Gender shall, also, be part of an analysis to figure prominently in the Human Development Agenda that is, currently, being developed in partnership with the private sector and civil society.

Civil society involvement: In Belize, the economic challenge of two post-independence decades and its impact on social development contributed to governments' acceptance of civil society organisations as partners in development. By the mid 1990's, a significant number of services to women, children, youth, indigenous groups and workers were met by civil society in areas such as family planning, AIDS prevention, civic education, environment protection, poverty alleviation and empowerment. The civil society organisations structured themselves in networks in order to enhance effectiveness. The four major networks (ANDA, WIN-Belize, CVSS, BACONGO) form the Belize Consortium of NGOs. Unions, co-operatives, credit unions, ethnic groupings, churches, farmers and the private sector also have their networks and associations. The Belize Civil Society Movement (BCSM) was established in 1996 with representation of over 90 civil organisations.

3.4.3 Challenges for sustainable development

Vulnerability to natural and man-made hazards: Belize has a perennial exposure to hurricanes. In October 2000, Hurricane Keith hit the northern part of Belize. In October 2001 Hurricane Iris struck southern Belize and affected one of the poorest areas in the country. Damages caused by the two hurricanes amounted to some 40% and 25% of GDP respectively.

As an agriculture-based economy, Belize has much exposure to climatic changes. Changes in weather-patterns affect crop timing for commercial farmers and rural populations dependent on agriculture for subsistence. With a rich natural and cultural resource endowment, forests, barrier reef, pristine rivers, archaeological sites, all attracting tourism, Belize is subject to environmental hazards, such as the effects of climate change (coral bleaching, sea level rise), possible oil spills, industrial pollution and pests invasion like the southern pine beetle infestation which destroyed 60% of the mountain Pine Ridge Reserve.

Disaster preparedness and preventive environmental management measures may not exclude the need for emergency assistance in case of major catastrophes.

In the field of environmental protection the authorities have to address a number of tasks such as implementing a solid and liquid waste disposal and management strategy, enhancing the monitoring of point and non-point sources of pollution from land-based activities that degrades the water system and coastal zones, ensuring an integrated system of coastal zone development and management, in particular in zones of high tourism and fishing activities, preventing deforestation and degradation of bio-diversity and natural resources.

4. Assessment of past and ongoing co-operation¹

4.1 EC development co-operation

At the end of March 2001, after 25 years of co-operation, the allocation of programmable and non-programmable financial resources from the European Community (EC) to Belize stood at € 89.91 Million, with € 82.13 Million fully committed and € 70.65 already disbursed. While Belize overall has had a strong record of taking up funds from the EU, the execution of the project cycle phase from programming to financing has been more satisfactory than the implementation and evaluation phases.

From 1990 to 1995, the overall objective of the Belize - EU Cooperation was to contribute to the improvement of the basic infrastructure conditions required for the promotion of economic development. Within this context, the majority of EU cooperation was channelled into the financing of economic and social infrastructure, focusing on road and health sectors respectively. During the period 1996-2000, the consolidation of economic infrastructure continued to be an important part of EC-funded activities in Belize, while the promotion of human and natural resources also became a priority area of concentration, with a particular attention to poverty alleviation.

While the National Indicative Programme for the 8th EDF (1996-2000) originally amounted to € 9.5 Million, then increased to € 11.5 Million, the total resources available to Belize reached over € 34 Million between 1996 and 2000, with substantial contributions from the EIB (€ 8.8 Million) supporting the citrus industry, the Special Programme of Assistance to the Banana Industry (€ 10.74 Million), the Environment budget line (€ 2.3 Million) and actions in support of Tropical Forests (€ 2.1 Million). This mix of financial instruments allowed EU development co-operation activities not only to support public sector investment initiatives, but also initiatives from non-state actors, such as the private sector and NGOs.

The various interventions supported by the EC over the last five years can be considered as means: (a) to better integrate Belize into the world economy through improving the competitiveness of the banana and citrus industries, (b) to directly and indirectly promote economic development in the rural areas, and (c) to assist enhanced community-based protection and conservation of the environment. The EU is the largest grant donor when adding the UK DFID, EC and EIB contributions.

4.2 EIB

Total EIB operations in Belize amount to € 20.8 million (from Lomé II to Lomé IV), of which 63% has been provided to the DFC for on lending to a wide range of small and medium sized enterprises. The remainder consists of loans to Belize Electricity Limited and to the Citrus Growers Association. Of the total € 20.8 million, 66% has been from risk capital and 34% from own resources. Under the Second Financial Protocol of Lomé IV, the total amount of approved loans so far is € 8.8 million including the transfer of € 0.1 Million from the 6th EDF Lomé III for the Citrus Industry, which consists of € 5 Million to DFC for financing of citrus groves and € 3.8 Million to CGA for an equity participation in Del Oro Belize.

In addition, € 5 million were financed indirectly by the EIB through an existing credit arrangement with CDC, which may have been used in modernising and improving the citrus processing industry.

¹ A summary table of past and on-going EC Cooperation with Belize is presented in Annex I.

4.3 Member States

United Kingdom (UK) is the only EU Member State present in Belize. Co-ordination between UK and the European Commission is good. Regular dialogue takes place locally between the British High Commission and the Delegation to Jamaica and the Resident Advisor in Belize on political issues (such as Belize – Guatemala Territorial Dispute), trade matters (bananas and citrus), economic policy and development co-operation. The UK and the Office of the European Commission are driving the mini-Dublin Group meetings, providing political and economic briefings to non-resident EU Heads of Mission accredited to Belize. With UK-DFID, the Commission was involved in co-financing of sections of the Hummingbird Highway and recently in the Financial Management Development Project with the GoB. Co-ordination was also ensured in the areas of forestry management, drug demand reduction, and poverty alleviation. UK-DFID funded the preparatory studies that led the EC to contribute to the Social Investment Funds. Consultations also take place between the UK-DFID Regional Office in Barbados and the Office of the Commission in Belize, especially on respective Country Strategies. UK-DFID is involved in such areas as education, public sector financial management, road construction, rural livelihoods, institutional and judicial reforms, and private sector development.

4.4 Other donors ²

Other major development partners in Belize include the Inter-American Development Bank (IADB), World Bank (WB), Caribbean Development Bank (CDB), and the UK Department for International Development (DFID) and the Republic of China on Taiwan (ROC). In addition, important co-operation partners include Canadian International Development Agency (CIDA) and United Nations Development Programme (UNDP).

The IDB, CDB, DFID, WB, ROC and the European Community have the largest assistance programmes in Belize with diverse portfolios. The **IDB** has involvement in agriculture health, land administration, tourism development, health sector reform and rural development, just to mention some of the areas. **CDB** has made interventions in education, rural development, road construction, and business development. The **WB** is focusing its involvement in some of the following areas: education, road and drainage infrastructure, social safety nets (through the SIF), technical assistance on regulatory frameworks (power and water), and establishing poverty monitors. The **ROC** has been involved with credit to Small/Medium enterprises (SMEs) and a housing project.

4.5 Lessons learned from evaluations

The following lessons learned by donor and/or lending agencies, including the Commission, have helped to shape this support strategy:

- Full Government commitment is necessary for a program to succeed. To ascertain Government's commitment, active policy dialogue and tighter donor co-ordination are necessary, regarding the appraisal, preparation, execution, monitoring and evaluation of projects or programmes.
- Institutional capacity amongst the Ministries and project implementation units is limited, hence projects must be clearly defined, and geared to achieve clear and targeted policy objectives, and well conceived institutional strengthening components, including clear procedures, need to be integrated into all new projects; the presence of well-trained staff throughout implementation can help in the early detection of,

² A Donor matrix is presented in Annex II.

and swift action to correct, design weaknesses and adapt to changing circumstances. For example, SIF project implementation improved greatly after its initial difficulties in retaining high quality PEU staff had been overcome through dialogue with the Government.

- Strengthening the financial management of projects is crucial. Quarterly Project Management Reports describing technical and financial status, as well as problems and action to be taken can improve execution.
- Incorporating the active participation of all stakeholders including municipalities, local governments and relevant Ministries from the earliest stage of the project is critical to assure sustainability of those institutions responsible for the operation and maintenance of physical works.
- Donor co-ordination is critical to effectively achieve Government's policy objectives. The Commission will continue to encourage the Government to take the lead in organising donor co-ordination and civic society participation meetings at least twice a year and provide support as requested.

The EC has had successful interventions in a number of areas including trade and agriculture reform, road construction, social safety net, tourism and the environment. The EC's development co-operation in Belize has developed a comparative advantage in utilising grant rather than loan instruments to promote development in rural areas, involving the public and private sectors as well as non-state actors.

5. The EC response strategy

5.1 Rationale for response strategy

The analysis of Belize's development policy and challenges for the future, combined with the review of the scope and domains of intervention of the donor community in the country, clearly show that poverty reduction is a very important national objective, in particular in the rural areas where 42.5% of the population lives below the poverty line. The focal area of the country strategy for Belize will be rural development with a focus on agriculture through direct and indirect assistance to the private sector, and with institutional capacity building of the public administration representing non-focal support.

The overriding objective to reduce poverty in Belize, will be best achieved by supporting agriculture diversification as the engine of the rural economy, through a sector-wide approach, in order to create income and employment generating opportunities for the poor and the marginalized population, particularly women and youth. The EC response is consistent with and supportive of Government policies as enunciated in its Mid-term Economic Development Strategy, the Poverty Elimination Strategy and Action Plan and the Post Keith and Post Iris Recovery Management Strategies. Furthermore, taking into account the results of the consultation with the non-state actors, the focus on the rural areas and agricultural diversification as the main means to reduce poverty, was strongly endorsed for the following reasons:

- It complements and increases returns from other investments in basic social services, infrastructure and welfare programmes,
- It has the potential to prepare and support the poor, micro and small-scale sector to produce, compete and improve their livelihoods on a sustainable basis,
- It creates real benefits for other sectors of the economy through the enhancement of purchasing power, provision of additional goods and services, and other multiplier effects in the short and long term in the national economy.

Addressing the productive needs of the poor is a major challenge. This will require a holistic and multi-sector approach. Government policies and services, empowerment of communities and marginalized groups, strengthening private sector operators, in particular small and micro enterprises, and the development of

domestic and export market capability are all important tasks which need to be addressed in a coherent manner. The grant funds from the EC response should serve as seed money that will catalyse an important segment of the economy that currently faces barriers for effective market participation, given their low levels of productivity, collateral and effective demand for institutional services. For the under-developed micro and small-scale productive sector, the EC response is expected to transform and raise operators' confidence, capacity and initiatives for self-development.

The usual focus on the provision of basic social services, physical infrastructure and welfare assistance, though essential, will not directly address the underlying causes of poverty. Accordingly, the EC response to Belize's poverty reduction objective should be primarily focused on creating productive opportunities that will directly benefit the poor and poorest strata through the enhancement of their capacity, employment, income, capital assets and the quality of life. Private sector activities will be the main driving force, both to reduce poverty and increase production in rural areas. Focus will be placed on the least favoured areas given the prevailing regional imbalances and the territorial size of Belize.

This response is also coherent with **the strategic interests of the EC regarding Belize**, which consist in: (a) supporting the country's efforts towards a further peaceful, equitable, open and democratic society, as a reference for political stability within the Central American Region; (b) promoting sustainable economic and social development; and (c) facilitating Belize's smooth integration into the global economy.

5.2 Key elements of the response strategy

The EC response shall focus on the following two main strategic components that, managed in an integrative mode, will contribute to rural development:

Capacity strengthening for enhanced decentralised partnership with local communities and marginalized groups, by improving municipal and village governance, targeting local producers' organisations, service agencies and key mechanisms for effective dialogue for policy formulation and implementation of development strategies in the productive sector.

Agricultural policies and services need to be redefined and adjusted to enable the poor to be more productive and benefit from economic growth.

Development of the productive sector with effective participation of the private sector. For the poor people of Belize, the sectors with the greatest potential at present include the non-traditional exports, aquaculture, eco-tourism, agro-processing, livestock, agro-forestry and other income generating enterprises. The diversification of the rural economy will focus on developing integrated systems, from production, processing to packaging, labelling and marketing. Some of the production systems being proposed are the non-traditional exports for niche markets in North America, Europe, Central American and Caribbean regions. Such options, which will be prioritised depending on the region of the country, include for example, fresh fruits and vegetables, marine and freshwater aquaculture, large and small livestock, domesticated wildlife species, eco-tourism, agro-processing, storage, transportation and other income generating ventures. Linking local production with the rapidly growing tourism sector offers tremendous development potential, provided that quality and safety standards are met. Private sector support will take account of backward/forward linkages with agriculture production such as agro-processing, artisanal/handicraft production and further use of primary base resources. Priority shall be given to initiatives and activities aiming at developing efficiently, the production of commercial crops subject to a prior analysis of the prospects for local marketing, transport and exports. Subsistence farmers and/or producers are considered as potential beneficiaries of such activities, which will attempt to upgrade them into commercial activities. Support measures include legislation for effective regulation, relevant training

and education for producers, affordable and timely financing for the poor and micro entrepreneurs, and participatory and transparent mechanisms for setting policies, allocating resources and delivering services. The timely delivery and effectiveness of such public goods shall be improved through co-operation with the non-state actors. The extension service will be strengthened in order to provide effective services to the rural areas.

5.3 Components of the response strategy

5.3.1 Rural development with focus on Agriculture

Overall objective: Reducing the incidence of poverty in rural areas.

Project purpose: Achieving a satisfactory trend of sustainable improvement of the income and livelihood of rural populations.

Results: Agricultural policies and services will have been improved so as to effectively target the poor. Export and local markets for agricultural produce, including agro-processing, have been further developed. Access for micro and small enterprises to markets, financial services and capital has been broadened. Niche products/markets, for example, organic horticulture production and ethnic food products for export have been developed. Poorer communities and marginalized groups have become better organised and more effective in developing networks and participating in socio-economic development initiatives. New or improved production systems, technologies and products have been introduced.

Assumptions: The macro-economic environment improves, leading, inter alia, to more affordable interest rates. It is also assumed that there is demand by the private sector for the services to be provided and that these services are effectively delivered. Furthermore, it is assumed that the exchange rate policy will be conducive for maintaining competitiveness. Donor co-ordination is successful in generating maximum synergy effects. The access to traditional and non-traditional export markets, especially in the context of trade liberalisation, constitutes the fundamental factor for the success of the proposed EC interventions in Belize.

Factors ensuring sustainability: Sustainable rural development will depend on a number of Government policies to effectively address the shortcomings in the social sectors, i.e. health and education, and in the physical infrastructure. The Government's commitment towards further decentralisation and public administration reform, as well as the partnerships with non-State actors are essential factors. Rural development activities will take into account environmental protection given the intrinsic link between sustainable development and tourism growth in niche areas such as eco-tourism.

5.3.2 Non-focal programme

The interventions to promote agricultural and rural development will be supplemented by a non-focal programme of Public Administration with focus on capacity building and institutional strengthening. Negotiations with the EU and other trade partners of sustainable trading agreements that take into account small vulnerable economies will be critical in this context. As such the EC response must include an important element linked with the specific ACP-EU and global trade negotiations, in which Belize is to take part. In this context, the EC shall contribute to ensuring the availability of human and financial resources to assist Belize in defining its position and negotiating goals for future trading relationships with the EU and

other upcoming trade negotiations. Appropriate measures shall also provide for the improvement of the overall institutional capacity of the Government, so as to meet the country's obligations under the existing and future trade regimes in terms of legal approximation and compliance, i.e. norms and standards, and institutional capacity to ensure appropriate implementation thereof. The Public Administration programme shall include a provision for technical assistance and consultancy services to enhance the planning and managing capacity of the National Authorizing Officer for the appraisal and implementation of the EC Country Support Strategy for Belize.

5.4 The European Investment Bank

The EIB shares the analysis of the Belizean economic situation. The role it can play as a lender integrates well into the agricultural sector development programme of the EC response strategy. The contribution of the EIB to development finance co-operation with Belize in the framework of the Cotonou Agreement will be the provision of long-term financial resources to support the private and eligible public sector and mobilise domestic and foreign capital for this purpose. The financial assistance is expected to come from both the Investment Facility and from the EIB's own resources. Requests from public sector companies run on commercial lines are eligible. In this connection the Investment Facility may be able to assist in financing privatisation operations and commercially viable publicly owned infrastructure projects. Although most of EIB's support so far has been through DFC, direct individual projects in the industrial or services sectors will also be considered. Such projects will be demand-driven. However, the Bank will be particularly interested in those that are in line with the Government's objective of encouraging private sector-driven and export-led growth.

5.5 Complementarity with other donors

The proposed focal and non-focal sector interventions complement not only the Government's own development efforts but also the EU Member States' and other donor co-operation programmes. The new UK co-operation strategy will be to support the Government in implementing policies and programmes that will contribute to the elimination of poverty, strengthen GoB's capacity to plan and implement poverty reduction programmes, promote opportunities for economic diversification, improve rural livelihoods, enhance the education system, and improve the capacity of the civil society to stimulate rural development.

This CSS and its implementation will provide the United Kingdom and the European Commission with the opportunity to further enhance co-ordination whilst achieving consistency and complementarity in pursuing the same overall objectives of poverty reduction. It is anticipated that the Sustainable Rural Livelihood Analysis funded by UK-DFID will serve as a basis and flow into the Programme Appraisal and Preparation exercise that will be undertaken for the implementation of the CSS. Complementarity and co-ordination should also be ensured with the IDB funded "Land Use and Administration Project".

5.6 Coherence with other Community policies

The EC response is consistent with the overall objectives of the European Community Development Policy as highlighted in chapter 1 of this document. It is also consistent with the European Policy to support Rural Development as described in the European Commission Policy Orientation Paper of February 2000, complemented by the Agricultural Sub-Sector Strategy Paper of October 2000. The interventions foreseen under the EC response for Belize will also combine traditional institutional support (both central and local), with more innovative approaches aimed at establishing partnerships with local communities and the private

sector, as recommended by the EC policy orientations.

As far as trade policies are concerned Belize's effective participation in international trade fora and agreements, in particular WTO, is encouraged. The results of Belize's future WTO Trade Policy Review should, where appropriate, be fed into the EC response strategy measures. At the bilateral level, efforts are undertaken to promote the trade dimension in the national development policies. In this connection, Belize's active involvement in the preparation and negotiation of the Economic Partnership Agreement (EPA) under the CARICOM framework is foreseen. In the framework of the non-focal programme, support will be provided to strengthen the capacity of the Belizean authorities in the fields of trade negotiation and implementation of the obligations, both already existing and eventually foreseen in the context of future agreements and regulations.

This specific support shall be consistent and complementary to the existing and available all-ACP programmes to prepare the ACP States for negotiating EPAs with the EU (€ 20 Million geared towards shorter-term needs), to promote their integration into the multilateral trading systems (€ 10 Million), and in increasing their sanitary capacity in the fisheries sector (€ 32 Million).

Wherever relevant EC policies/strategies concerning crosscutting issues such as human rights and democratisation, gender and environment have been taken into consideration. This includes as well building strategic and operational links between related development aspects. In the case of Belize work has already been done to integrate disaster preparedness into management instruments. Conflict prevention is closely monitored in the context of OAS, with the Belizean authorities actively pursuing a balanced approach towards finding a definite and fair solution to the long-lasting border dispute with Guatemala. Synergies exist between the country support strategy and other relevant Community policies in the fields of communicable diseases, bio-diversity, sustainable development and information society. The same applies to the orientations and activities of the forthcoming Caribbean Regional Strategy to be supported by the EC.

Assistance will be provided for the banana industry during the period covered by the country strategy, both through the preferential access to EU markets (Lomé trade preferences and Protocols will continue to be in force at least until 2008) and through the budget line "Special Framework for Assistance" to increase competitiveness and to facilitate diversification. In addition, through Commission budget lines, funding continues to be available for environmental, democratisation, civil society strengthening and human rights projects. Other resources shall originate from the various budgetary instruments of the European Commission, from the Centre for the Development of Enterprises (CDE) and the Technical Centre for Agriculture and Rural Cooperation (CTA). These shall be allocated in support of activities aiming at achieving the objectives and purpose of the Country Support Strategy.

Coherence between development co-operation policy and other EC policies (trade, fisheries, agriculture, environment, research, etc.), relevant to Belize, will be assessed on a permanent basis. In this context, NIP resources may be used to complement resources from the Regional Indicative Programme, EC budget lines and trade-specific operations, according to the needs and availability of funds.

Part B: NATIONAL INDICATIVE PROGRAMME

6. The National Indicative Programme

6.1 Introduction

Within the general framework of the present CSP, the Parties have agreed on the main priorities for their co-operation (see chapter 5) and the sectors on which the support of the Community will be concentrated. A detailed Indicative Programme is presented in Annex I. It is based on the resources of the A allocation and, subject to the outcome of the mid-term review and emerging needs as covered by the relevant regulations, the B-allocation.

Amounts mentioned in this chapter indicate the global repartition of funds between the focal sectors and other programmes. This repartition may be modified in the context of operational, performance or ad hoc reviews.

6.2 Financing instruments

The implementation of the response strategy of the EC will be financed through a number of financing instruments. The following allocations are foreseen on an indicative basis:

1. 9th EDF, A-allocation (7.8 M€): This allocation is destined to cover the long-term development activities identified in the context of the response strategy. The following programmes have been identified under the A-allocation on an indicative basis:

- Rural development with focus on Agriculture (88%)
- Non-focal programme Public Administration (12%)

2. 9th EDF, B-allocation (1.0 M€): This allocation is destined to cover unforeseen needs such as emergency assistance where support cannot be financed from the Community budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse affects of instability in export earnings.

3. Investment Facility: Apart from the above-mentioned financial instruments, of which the A-envelope is the main programmable basis for the Indicative Programme, the 9th EDF includes also the "Investment Facility" as a financing instrument managed by the European Investment Bank (see details in Part A, chapter 5.4). The Investment Facility does not form part of the Indicative Programme.

4. Budget lines of the Community: Specific activities may be supported through the various Community budget lines, including, inter alia, NGO co-financing, decentralised co-operation, European Initiative for Democracy and Human Rights, food security and disaster prevention. Humanitarian and emergency assistance shall be accorded to the Belizean population concerned in case of serious economic and social difficulties resulting from natural disasters or man-made crises. Approval of proposals and implementation of support measures under the available budget lines will be decided in accordance with the procedures in place for each respective financing instrument and are subject to the availability of funds.

6.3 Focal sector: Rural development, with focus on Agriculture

The specific objective is to reduce poverty in the rural areas. For indicative purposes, approximately 7.0 M€ shall be reserved for this sector.

The major interventions foreseen are: (a) capacity strengthening for enhanced decentralised partnership with local communities and marginalized groups, and (b) direct and indirect support for the development of the productive sector, in rural areas, with focus on agriculture. The programme components will be developed through and implemented in a cluster approach, thereby inter-linking all relevant donors and partners, i.e. business, government departments, banks, private sector organizations and addressing their respective needs/constraints in a comprehensive and inter-related manner.

The major policy measures to be taken by the government as contribution to the implementation of the response strategy in this sector are the promotion of policies targeting sustainable agriculture and rural development, increasing the efficiency and competitiveness of the agricultural sector, increasing food production, enhancing food security and improving the nutritional status of the population; improving income generation, distribution and equity with enhanced participation of small producers, communities and indigenous groups, and strengthening inter-sectoral linkages, in particularly with the social sectors of health and education, as well as with the strategy and action plan for poverty eradication.

6.4 Other programmes

An indicative amount of 0.8 M€ has been reserved for the following purposes:

- Capacity Building: The specific objective is to assist Belize in defining its position and negotiating goals for future trading relationships with the EU and other upcoming trade negotiations.
- Institutional strengthening: The specific objective is to improve the overall institutional capacity of the Government so as to meet the country's obligation, example, norms and standards, and institutional capacity to ensure appropriate implementation thereof.
- Technical Assistance and Consultancy Services to enhance the planning and managing capacity of the National Authorizing Officer for the appraisal and implementation of the EC Country Support Strategy for Belize.

6.5 Modalities of implementation of the CSS

With a view to achieve the objectives of the CSS, support in the focal area of the strategy will be implemented through an Agriculture Sector Programme adopting a “sector-wide approach”, which should involve the Ministry of Agriculture along with other public sector institutions, local government, the private sector, NGOs, the civil society and other potential donors.

This **Agriculture Sector-Wide Approach Programme** (ASWAP) will include the major interventions described in above section 6.3. Following approval of the CSS, the GOB will undertake a programme appraisal exercise to define the objectives, purpose, results, activities, management and monitoring procedures of ASWAP. This appraisal shall be executed on the basis of a participatory approach to ensure consistency and complementarity with other initiatives in the rural economy, and shall include a review/update of Belize's policies and strategies for rural development, agriculture and poverty reduction. It is anticipated that a Programme Steering Committee, assisted by a Programme Management Unit charged

with the preparation and execution of periodical work programmes, will support the implementation of ASWAP. The work programmes should summarize the specific areas of intervention with their beneficiaries, and will detail the procedures of execution, including a programme imprest account.

This format should allow for the lessons learned (under Section 4.5) to be taken into account during programme appraisal and implementation. These relate to full government commitment, absorptive capacity, sound financial project management, real stakeholders' participation, and external donor coordination.

Concerning the non-focal area of the EU Response, support will be provided on the basis of preliminary needs assessments defining the specific requirements and domains of assistance

6.6 Intervention Framework of 9th EDF Indicative Work Programme in area of concentration for Belize

Descriptive Narrative	Performance Indicators ³	Sources of Verification	Assumptions
<p><u>Long-term national sector targets:</u></p> <p>To reduce the incidence of poverty in rural areas of Belize</p>	<ul style="list-style-type: none"> - GDP and per capita growth between 2002 and 2006 - Evolution of number of poor people below poverty line between 2002 and 2006 - Situation of Employment and income levels of the poor between 2002 and 2006 - Belize 's Human Development Index ranking improves between 2002 and 2006 - Level of Agriculture's contribution to Exports and GDP between 2002 and 2006 	<p>Central Statistical Office, Ministry of Finance</p> <p>UNDP Human Development Report – Annual</p> <p>DFID study on Sustainable Rural Livelihoods Project</p> <p>Updated surveys on poverty in Belize</p>	
<p><u>Intervention Objectives:</u></p> <p>To achieve a satisfactory trend of sustainable improvement of the income and livelihood of rural populations by supporting a sector wide approach to the development of the agricultural sector and other related activities</p>	<ul style="list-style-type: none"> - Level of participation of local communities in programme preparation and implementation - Level of involvement of decentralised administrative entities in programme. - Change in number of SME between 2002 and 2006 - Change in share of non-traditional exports versus total exports 2002-2006 - Change in employment in SME 2002-2006 - Change in Agriculture productivity, income and employment in targeted rural 	<p>Publications and reporting on national policies & dev plans</p> <p>Programme reports: quarterly, annual, mid-term and final</p> <p>Special surveys</p> <p>Monitoring and Evaluation missions (Start, midterm & final)</p>	<ul style="list-style-type: none"> • GOB applies sound macroeconomic policy and management. • Government of Belize and society at large committed to partnership for enhanced economic growth with poverty reduction as main priority, with stable political environment. • Reform of public services brings enhanced transparency, decentralisation of decision making and management, and higher accountability. • GOB remains committed to its

³ The quantitative performance indicators (against which progress will be measured) are tentative; they will be developed in further detail by the European Commission and the Government of Belize in the corresponding financial proposal for the rural development programme.

	areas, including women, 2002-2006		<p>poverty elimination strategy and to empowering rural populations, especially the poor.</p> <ul style="list-style-type: none"> • Continued commitment and focus on decentralisation, public sector reforms and partnership with non-state actors. • Continued support of GOB for investments and reforms in education, health and infrastructure sectors.
<p><u>Expected Results:</u></p> <ol style="list-style-type: none"> 1. Agricultural policies/services improved 2. Councils & associations in local communities & villages are effectively participating in programme implementation 3. Small producers as individuals or groups with access to domestic or export markets 4. New or improved production systems, technologies or products introduced 5. Niche markets for export developed 6. Small producers with greater access to credit 	<ul style="list-style-type: none"> - Change in number of smallholders with land lease and title 2002-2006 - Change in level of accessibility and delivery to domestic and export markets 2002-2006 - Farmers using new products & technical recommendations increases between 2002 and 2006 - Number of improved facilities for value adding, packaging and labelling - Evolution of number of farmers benefiting from credit and financial services 2002-2006 	<p>Programme reports: quarterly, annual, mid-term and final</p> <p>Central Statistical Office, GOB</p> <p>Monitoring and Evaluation missions (Start, midterm & final)</p>	<ul style="list-style-type: none"> • Adequacy of counterpart funding and of incentives for policy and management staff in institutions concerned. • Effective and regular donor co-ordination, ensuring consistency and complementarity. • Availability of trade opportunities in EU, North America, CARICOM and other markets, including local ones. • Financial sector more performing and availability of affordable credit for SMEs.

6.7 Chronogram of activities, 2002-2007

Titles	Amounts	Identification	Appraisal	Financing decision
Agriculture Sector: Rural Development	7.0	July 2002	October to Dec. 2002	April 2003
Public Administration with focus on capacity building and public administration	0.8	June 2002	June to Sept. 2002	Oct. 2002 to Dec. 2006

6.8 Indicative commitments timetable, 2002 - 2006

Commitments time table (million €)

Belize	Indicative Total	2002/2	2003/1	2003/2	2004/1	2004/2	2005/1	2005/2	2006/1	2006/2
Focal Programme ⁽¹⁾ Rural Development	7.00			7.00						
Emergency Funds ⁽²⁾	1.00			1.00						
Non-focal programme	0.80			0.15	0.40	0.10			0.15	
Total A allocation	7.80			7.15	0.40	0.10			0.15	

1) excluding EIB-administered investment facility and EC budget lines

2) envelope B: indicative amount of up to € 1.0 million

6.9 Indicative disbursements timetable, 2003 - 2007

Payments time table (million €)

Belize	Indicative Total	2003/ 1	2003/ 2	2004/ 1	2004/ 2	2005/ 1	2005/ 2	2006/ 1	2006/ 2	2007/ 1
Focal programme Rural Development EDF instruments Emergency Funds ⁽¹⁾	7.00		0.50	1.00	1.10	1.00	1.00	1.00	1.00	0.40
Non-focal programme	0.80		0.15	0.15	0.15	0.10	0.10	0.00	0.05	0.10
Total A allocation	7.80		0.65	1.15	1.25	1.10	1.10	1.00	1.05	0.50

(1) Envelope B

Annex I: EC COOPERATION WITH BELIZE

LOME I - EDF 4 (76/80)	Primary Commitment	Secondary Commitment	Status
N.I.P.	5,580,000	5,580,000	(1)
C.R.I.P.	1,918,000	1,918,000	
STABEX	342,364	342,364	
TOTAL	7,840,364	7,840,364	closed - 92

LOME II - EDF 5 (81/85)	Primary Commitment	Secondary Commitment	Status
N.I.P.	5,500,000	5,500,000	(2)
C.R.I.P.	263,000	263,000	
E.I.B.	2,600,000	2,600,000	
N.G.O.	53,544	53,544	
TOTAL	8,416,544	8,416,544	closed - 93

LOME III - EDF 6 (86/90)	Primary Commitment	Secondary Commitment	Status
N.I.P.	8,000,000	7,979,725	excluding EIB
Bonification Interests	141,950	141,950	closed
E.I.B.	3,500,000	3,500,000	closed
N.G.O.	870,160	870,160	closed
Aid Refugees - Art. 204	1,812,171	1,812,171	closed
Aids Control	100,000	100,000	closed
Ecology - Art. 946	19,000	19,000	closed
Drugs Programme	206,813	206,813	closed
Regional - Mundo Maya	750,000	750,000	ongoing
TOTAL	15,400,094	15,379,819	

LOME IV - EDF 7 (91/95)	Primary Commitment	Secondary Commitment	Status
N.I.P.	8,978,364	8,978,364	excluding EIB
C.R.I.P.	2,153,800	1,310,000	ongoing
Bonification Interests	456,844	456,844	closed
E.I.B.	6,000,000	6,000,000	closed
N.G.O.	553,756	553,756	closed
Aid Refugees - Art. 255	500,000	500,000	closed
Emergency Aid ECHO Keith	850,000	850,000	ongoing
Environment B7 - 5040	570,000	570,000	ongoing
Trop. Forests B7 - 5041	1,406,759	1,406,759	ongoing
Mother & Child Health B7-5047	500,000	500,000	closed
Support Banana Industry	2,220,000	2,220,000	ongoing
TOTAL	24,189,523	23,345,723	

LOME Ivb - EDF 8 (96/2000)	Primary Commitment	Secondary Commitment	Status
N.I.P.	9,437,840	9,070,325	ongoing
EIB	8,700,000	8,700,000	ongoing
Mother & Child B7-6310	400,000	400,000	ongoing
N.G.O.& Decentralized Coop.	315,074	315,074	ongoing
Emergency Aid ECHO Mitch	50,000	50,000	closed
Environment B7 - 6200	2,289,130	2,289,130	ongoing
Trop. Forests B7 - 6201	2,135,015	2,135,015	ongoing
Assistance Banana Industry	10,738,000	4,188,000	ongoing
TOTAL	34,065,059	27,147,544	

TOTAL - NIP	37,496,204	37,108,414	excluding EIB
TOTAL - CRIP	5,084,800	4,241,000	ongoing
TOTAL - Bonif. Interests	598,794	598,794	closed
TOTAL - EIB	20,800,000	20,800,000	ongoing
TOTAL- AID REFUGEES	2,312,171	2,312,171	closed
TOTAL - EMERGENCY ECHO	900,000	900,000	ongoing
TOTAL - NGOs	1,792,534	1,792,534	closed
TOTAL - STABEX	342,364	342,364	closed
TOTAL - ENVIRONMENT	2,878,130	2,878,130	ongoing
TOTAL - Tropical Forests	3,541,774	3,541,774	ongoing
TOTAL - Other Budget Lines	1,206,813	1,206,813	ongoing
TOTAL - Banana Assist.	12,958,000	6,408,000	ongoing
GRAND TOTAL	89,911,584	82,129,994	

Annex II : Matrix of External Donors Contributing to Belize Country Programmes, Sector: 2000

Country/Agency	Economic Development	Social Development	Productivity Sector	Thematic/cross-cutting Issues
1. European Community	-Credit fund -Pave/upgrade Belmopan-Sibun Bridge section	-Training & Development Centre -Remedial activities at the Karl Heusner Memorial Hospital -Integrated drug demand reduction program -Social Investment Fund -Sustainable Community Development	-Improve competitiveness of the banana & citrus industries -Development of two southern Maya sites	- Development of revenue generation systems for forest management -Development of sustainable forest management -Conservation & sustainable use of the barrier reef -Water reef inter- connectivity scientific study -Develop of two centres for the co-management of protected areas -Documenting impact of land use practices on water & reef quality
2. IBRD (World Bank)	-Pave Burrel Boom road, maintenance of roads and municipal drainage	-Social Investment Fund		
3. UNDP				-Global environmental facility sub-project
4. IDB	-Rationalize land administration -Pavement of the southern highway	-Youth Enterprise Development -Disaster Preparedness	-Modernization of Agriculture health services -Development of archaeological & tourist sites	-Environment & social technical assistance project
5. CDB	-Upgrade sections of the Hummingbird highway -4.5 Miles Orange Walk Bypass -Southern Highway	- housing credit -Second water Project -Basic Needs Trust Fund -Disaster Preparedness	-Enhance capacity of communities in Southern Belize -Credit fund for the productive sectors	

6. IFAD			-Enhance capacity of community initiated agriculture in Southern Belize	
7. FAO			-Assist small farmers -Promote the hot pepper industry and hot pepper seed production -Enhancement of sustainable small farm food production	
8. ROC (Taiwan)	-Pavement of the southern highway	-National Housing Program	-Credit fund for small & enterprises	
9.. Deutsche Bank		-New town construction at La Democracia		
10. OPEC/ Kuwait Fund	-International Airport Runway Expansion			
11. Kuwait Fund	-Pavement of the southern highway			
12. UK – DFID	-Strengthen financial management and public administration -Pavement of the southern highway	-Poverty assessment -Commonwealth Debt Initiative -Public safety		
13. Banco Mexico				-Museum project

Existing and forthcoming donor involvement in the agriculture sector and related projects suggests full complementarity with the foreseen EC interventions on Rural Development as follows:

Improvement of Government's agricultural policies and services: The IDB, Republic of China and DFID-UK have been helping Belize to create an enabling environment for private sector development with respect to legislation and regulation, access to land and capital, and market and trade information. Commencing shortly is the DFID Sustainable Rural Livelihood project that will undertake a holistic, broad-based analysis considering all aspects that impact on the poor's livelihood systems. The latter will complement the EC response in establishing relevant benchmarks, identifying causes of poverty and thus establishing directions needed for creating an enabling environment for the poor, micro and small-scale producers. Co-ordination should also be ensured with the IDB funded "Land Use and Administration Project".

Empowerment of communities and marginalized groups: Since 1998 Government has been fully committed to the process of political reform, and to date notable strides have been made in decentralising and empowering town and village councils to take greater responsibility for their own planning and development initiatives. UNDP (sustainable human development), Economic Commission for Latin America and the Caribbean – ECLAC (development of human development agenda) and the Society for Promotion of Education and Research – SPEAR (political reform) are presently supporting these initiatives with training and promotion efforts. However, much more has to be done to focus attention on organisation for development initiatives and building capacity for income generation and wealth creation.

Development of domestic and export markets: Belize is involved in the process of trade negotiations as part of CARICOM through the Regional Negotiating Machinery within the WTO and FTAA frameworks. In this connection, the Inter-American Institute has provided training and guidance for Cooperation in Agriculture-IICA (training on trade negotiations), USDA-APHIS (med fly surveillance), IDB (Belize Agric Health Authority, export promotion and short term technical assistance for Trade policy and negotiation) and International/Regional Organisation for Agricultural Health - OIRSA (control of pink hibiscus mealy bug, sanitary and phytosanitary protocols). Presently Belize is drafting a long-term trade policy before entering the next phase of the FTAA process.

Development of the productive sector: GoB is receiving support from the World Bank (Social Investment Fund), IFAD (community initiated agriculture in the southern region), CDB (Basic Needs Trust Fund, rural development in the southern region), Republic of China and Caribbean Agricultural and Development Institute - CARDI (appropriate technology), and IDB (land administration). However, these projects are not subject to a systematic coordination, may duplicate each other, and often are considered as pilot schemes. Therefore, they do not bring efficiently together the level of support and investment to tackle the constraints of the poor, micro and small-scale producers, who are not credit-worthy at the present time. Hence the need for a coordinated approach, under the umbrella of one ad-hoc institutional set up, with resources to make the difference.

Annex III: Belize Agricultural Sector Analysis

1. BACKGROUND⁴

Belize has an area of 22,965 km² and a population of about 250,000, 52% of which reside in the rural areas. Relative to 1981, population has increased by about 61%. Approximately 30% of this increase was due to Central America's immigrants during the 1980s and 1990s. The GDP, at constant prices, has increased from \$365.7 million in 1980 to \$877.7 million in 2000. This represents an increase of 140%. Meanwhile, GDP per capita has increased over the same period from \$2,516 to \$3,511, at constant prices, representing an increase of 40%. The relative contribution of the primary, secondary and service sectors to GDP is roughly 22%, 25%, and 53%, respectively.

The agricultural production systems include food grains, vegetables, traditional exports, non-traditional exports (e.g. papaya, hot pepper, root crops), fruit trees, and livestock. Although sugarcane, citrus and banana production have the largest acreage and productivity, there is a wide range of other production systems because of the multipurpose roles of agriculture in national development of Belize. In this respect the direct and indirect benefits of the agriculture sector include: food and nutrition security, provision of materials for other sectors (e.g. industry and tourism), income and employment generation in rural areas (i.e. 30% of the total labour force), foreign exchange generation and savings, provision of manual and skilled labour for other sectors, creation of productive assets and infrastructure, protection and regeneration of natural resources, reduction of social problems in urban areas, scientific/recreational tourism, business for multilateral funding agencies and local financial institutions, as well as employment for high level professionals, especially from the developed world, who provide technical assistance and training. During 2000, total primary agriculture output reached \$299 million while primary non-traditional agriculture reached \$125 million in output.

During the period of analysis, the agricultural sector's dependence on sugar was reduced as production of bananas, citrus and marine and aquaculture products increased; furthermore, production of other food products such as livestock (beef, poultry, eggs), other domestic food crops (rice, corn, beans, fruits/vegetables) also expanded and new export products emerge such as farmed shrimp, farmed finfish, solo papayas, habanero peppers, black eye peas, RK beans, cocoa and citrus squash also emerge. The main losers during this time period were chicle output which essentially ended, mango/honey exports which were reduced by 1000%. Between 1980-2000, the sector (crops, livestock and fisheries) growth was cyclical but average 5%, higher than most Latin-American and Caribbean countries. In the last three years it has expanded on average by about 6.1% per annum.

From 1990 to 2000 the contribution of agriculture to GDP has increased by 4% points. The increase is largely attributed to the increase in the fisheries sub sector from 2% to 5% of GDP. Total agriculture export earnings has increased from \$89.7 million in 1985 to \$347.775 million in 2000, at current market prices. This represents an increase of more than \$258 million (288%). The importance of agriculture to the Belizean economy is reflected by the fact that agriculture export earnings represented more than 86% of total export earnings during 2000 (\$401.9 million). This share contribution to export earnings is in contrast to 1985 when only 70% of export earnings could be attributed to agriculture, largely due to depressed prices for sugarcane. Approximately \$290 million (84% of export earnings in agriculture) are generated by four commodities: citrus concentrate, sugar, marine products,

⁴ All figures are in Bze \$ unless specified otherwise (2 BZE\$ = 1 US\$).

and bananas. The remaining other export earners are papaya, orange/grapefruit squash, red kidney beans, black-eye peas (main earners) and pepper sauce, cocoa beans, citrus oil, mango, peanuts and honey (being minor earners). Export agriculture in Belize has always relied on preferential markets in the European Union (EU), the United States (US), the Caribbean Community and to a lesser extent Canada. Trade liberalization/ globalisation trends such as the Free Trade Area of the Americas, World Trade Organization and other emerging regional/extra-regional integration movements are slowly eroding preferential market access and make it imperative to improve competitiveness and productivity, particularly, in products such as sugar, bananas, and to a lesser extent, citrus. However, even with respect to products catering to the domestic and regional markets in Caricom such as RK beans, cowpeas, rice, and livestock there will be need to achieve significant improvements since potential reductions in the Common External Tariff are becoming more imminent.

Agriculture still continues to form the foundation of the productive sector and the rural economy of Belize. At least, 35% of GDP (\$360 million at constant prices) and 41% of total employment is directly dependent on agriculture, fisheries & forestry. This is so because 90% of all manufacturing (which constitutes 17% of GDP and 12% of employment) is based on input (sugar, citrus concentrate, animal feed, agriculture chemical, furniture, jams, jellies, chips, juices, milk, ice cream, sausages, packaging etc) from/for the primary sectors of agriculture, fisheries and forestry. Primary agriculture, fisheries & forestry are responsible for 29% of employment and more than 21% of GDP (constant prices).

2. Sustainable Agriculture & Rural Development

The incidence of poverty is severe and persistent, particularly, in rural areas, despite, the country's status as a lower middle-income country with a per capita income of US \$2576 (current market prices); thus poverty may be characterized as a rural phenomenon since the majority of unemployed youths live in rural areas. The 1996 country poverty assessment (CPA) which measured poverty in relation to annual household consumption revealed that 25.3% of households (33% of the population) existed at or below the per capita poverty line of an adult \$1287 (US\$644) based on consumption of basic food and non-food necessities. Of these households 9.6 % (13% of the population) were deemed to be "extremely poor" based on their inability to obtain other than basic food.

In the last CPA 1996 the rural areas recorded the highest level of poverty with 35% of rural households nationally experiencing severe deprivation. Furthermore, of the poorest quintile in the CPA, 45% indicated that agriculture or fisheries was their main source of livelihood. The link between agriculture and poverty provides evidence that rural poverty in Belize is not simply economic deprivation (temporary & short-term nature) but is linked to wider (structural) factors such as poor infrastructure, support services (extension, credit, marketing, capacity building etc.) which all contribute to isolating many rural communities from participating in meaningful economic activity.

Consequently, in Belize's case, poverty reduction is intrinsically linked to rural development and rural development is dependent on the development of sustainable agriculture. Sustainable agriculture & rural development suffers from the following challenges/constraints:

1. Small-scale agriculture is perceived as an unviable business activity;
2. The education system operates in a way that generates negative attitudes towards the involvement in agriculture;

3. Young persons/women perceive small-scale agriculture as perpetuating rural poverty/technological backwardness;
4. An aging farming/ rural population;
5. The high poverty rate in rural areas is inherently linked to poverty in the urban areas such as Belize City since urban poverty is to a large extent a manifestation of the rural/urban drift caused by hopelessness in the most rural areas of Belize;
6. Rural underdevelopment is negatively impacting on the environment as those inflicted with poverty undertake activities (use of hilly areas for agriculture, slash/burn practice etc), all of which lead to deforestation and rapid loss of the top soil;
7. Sustainable rural development/poverty reduction requires an integrated approach to development and not just the fulfilment of economic need. It would also require good health, relevant education, an ability to participate in making/implementing those decision which impact on their lives, a feeling of adequacy and ownership of the community while enjoying freedom of expression through the democratic process.

3. Constraints and Challenges

An analysis of the trends in the agriculture sector clearly indicates growth. This growth has been attributed largely to the growth in investment by large farmers in the banana, citrus, aquaculture and papayas industries, and to a lesser extent to the growth of medium-size farmers catering to the domestic/regional markets. The last agriculture census (1984/1985) indicated a total farm population of 11,000 while the last population census (2000) indicates a preliminary estimate of 16,979 farmers. The last poverty assessment survey (1996) indicated that more than 50% of all the poor (25,000 poor households) were regarded as farmers. The majority of these poor farmers can be categorized as small farmers, indigenous people, women, recent immigrants, and/or practicing slash/burn and catering to the domestic market. It is expected that deeper trade liberalization will further encourage large farming and make it more difficult for small farmers to continue with their present farming systems, particularly small farmers within the sugar and citrus industries.

The main challenge for Belize will be to identify and access markets and then develop or adapt appropriate technologies in order to improve labour productivity, improve quality of product, and formulate cost-effective policies, incentives and services that will provide small farmers with the capacity and tools required to succeed. Only so will they remain in the rural environment and maintain a link to the agriculture sector while moving out of the vicious cycle of poverty. In this connection, the key issues that must be addressed in moving forward with agriculture are:

1. Credit: Most credit from commercial banks and also from the Government's main development bank (Development Finance Corporation) goes to stable and less risky activities within the agriculture sector (main traditional exports), where repayment periods are short and where there is virtually no supervision of borrower activities. This has resulted in small farmers not having easy access to affordable credit. Credit needs to cater to the unique characteristics of farmers by reforming administrative stipulations for its management, such as decentralization, collateral, repayment, supervision, and insurance against risk and uncertainty. The management of credit should not be based on production experience, repayment record and collateral since current lending practices discriminate against subsistence farmers, new farmers, women/youth and those without land ownership rights.

2. Infrastructure: Inadequate infrastructure contributes to high production cost and production inefficiencies, which are limiting the growth of agriculture and agro-industrial production by

reducing the competitiveness of agriculture products. Some of these infrastructure constraints are the high costs of fuel, utility and telecommunications, relative to those existing in neighbouring Mexico or the USA. Other constraints involve the limiting amount of secondary and feeder roads in the rural areas, which serves to limit production during the rainy season.

3. Marketing: The current production/marketing for most fruits/vegetables and other products catering to the domestic market is not sufficiently organized and well developed to supply stable quantities with a uniform product quality. Contributing factors to the status quo are: the seasonal nature of most products due to lack of irrigation, inappropriate production technology and inadequate support services such as storage facilities and deficiencies in the transportation system which does not allow for a regular flow of products all year-round.

4. Small-Scale Agriculture: Small farmers can be divided into milpa producers, who practice shifting cultivation, and permanent cultivators. More than 50% of all farmers in Belize would be considered milpa farmers; furthermore, more than 60% of all rice and corn farmers would also be considered milpa farmers. Small farmers are mostly engaged in producing for both the domestic market and for their own consumption, and a large portion of small farmers also produce sugar cane and citrus; about 92% of all citrus growers are small farmers (less than 20 acres) producing less than 20% of total production while about 98% of all sugar cane producers are small farmers producing the bulk of the crop. Most small farmers in Belize may be described as poor. Some of the main factors responsible for the low income are: their limited access to inputs, credit and lack of a good distribution network, the limited access to support facilities such as drying, storing, processing, transportation, access to improved varieties developed specifically for the Belizean environment, lack of appropriate technological packages required for optimising yield, lack of an organized market intelligence system, and regional/central assembling centres/markets and the small size of the domestic market. During 2000, domestic agriculture (non-traditional agriculture) was responsible for more than \$125 million worth of output.

5. Drainage/Irrigation: There is complete dependence on rainfall by small farmers and very limited use of irrigation by even large farmers. Farmers, now, understand the importance of having irrigated agriculture due to their success on a limited scale with new commodities. It is important for credit institutions to be fully supportive of lending long-term for this type of infrastructure investment since in the medium/long-term it will contribute to more competitive, less risky agriculture. Poor drainage, in a similar fashion, has been contributing to a limited cropping season, low yields and low product quality which all results in high fluctuations of farm income. Small farmers understanding of good drainage needs to be increased and credit agencies should be willing to finance this type of activity as a way to reducing risk.

6. Research & Development: Very limited research & development (R&D) is being carried out on crops of interest to small farmer. R&D is needed for commodities that, particularly, cater to the domestic market so that gradually they may become competitive in quality and price. Farmers and extension staff must be fully involved in this process so that results can be shared/adopted by farmers.

7. Farming Practices/technology: Most farmers continue to use outdated production practices or equipment. Training and demonstration are required on better farming practices and technology that will build upon indigenous knowledge and allow rural farmers to be competitive. This is a priority for the process of transforming agriculture to a market-driven,

producer- organized, technology-conscious and profit-optimising strategy, practiced and shown to yield results by the Mennonite communities in Belize.

8. Packaging & Grades/Standards: Inadequate and/or non-existent packaging facilities together with a lack of product market requirement (grades/standards) continues to limit expansion of small farmers subsistence crops – vegetables, root crops, and grains.

9. Land Availability & Security: Land Security continues to remain a constraint for small farmers; most small farmers do not have adequate title to the land which they occupy since the Government's Land Administration Department has limited resources to solve this problem in an expeditious and affordable manner. This has resulted in the present land titling system being overburden with numerous conflicting and overlapping claims and farmers not being able to access capital for investment due to lack of collateral.

Land Availability for agriculture development is limited, in spite of the small population base. For instance, 44% of all the land (class 5) consists mostly of steep slopes of the Maya mountains and lime karst and is best suited for forest. Another 20% of the land (class 4) has very poor drainage, is shallow and is subject to drought and is best suited for forest management/ production. These two types of unsuitable land for agriculture development represents 64% of all land in Belize. The remaining 36% of land is suitable for agriculture development but 16% of this is already being used for sugar, banana, citrus and pasture development; the other 20% is suitable but requires proper management since it is characterized by poor drainage and is difficult to work due to compaction or shallow depth to bedrock. Most of the latter 20% of land suitable for agriculture is located in Southern Belize where a great majority of small farmers and where poverty is more persistent and widespread. IDB is financing a land administration project to address some of these constraints (See annex on the donor matrix).

12. Plant & Animal Health: Belize, currently, enjoys a high level of agriculture health. In order to maintain its health status Belize will need to improve on its system of inspection and education to avoid the introduction of agriculture disease & pest. Belize will also need to strengthen its ability to handle occasional outbreaks with emergency responses, adequate surveillance and proper eradication programme, quarantine facilities and appropriate regulatory/legal instruments. IDB is financing a project on Plant & Animal Health which should address these constraints (See annex on donor matrix).

4. Lessons and Priorities for Government in the Next Five Years

From recent experience, both successful initiatives and some disappointments, the Ministry of Agriculture has learnt valuable lessons that should guide future development pathways to modernize the productive sectors. The following variables must be present in any successful equation:

- A strong macro-economic policy and coordination strategy for sector-wide development for food security, export promotion and development of complementary/cross-fertilization between national, local and international donors/cooperation agencies;
- Commitment to institutional strengthening for sustainable development by creating viable and effective partnership among government, private sector, NGOs and community based organizations;
- Commodity approach in response to market and consumer preferences, by integrating production with processing and value adding strategies and technologies;

- Excellent market demand and opportunities for non-traditional, high quality exports, for example fresh fruits and vegetable, organic products and marine products;

5. Long-Term Policy Direction

Traditional Export Crops - The overall policy objective is to continue to exploit the preferential market opportunities in the USA, EU and Canada as long as these are available for sugar, citrus products and bananas, while at the same time preparing these sub-sectors to compete with markets under free trade. The specific objectives are to:

- Continue to meet the preferential market requirements in the US, EU and Canada as long as these are available to Belize.
- Introduce technological and productivity improvements at the farm level, processing and marketing in preparation of reduction/elimination of the guaranteed markets.
- Improve the commercial viability of the sugarcane, citrus and banana crops farming system.
- Develop a long term strategy to diversify the traditional export product lines of these sub-sectors by developing new by-products for both the domestic and export markets.

Non-traditional Crops - These are import competing sub-sectors which will need to improve their competitiveness in both the domestic and export markets, given the likelihood of lower protection, a more liberalized trading environment and the thrust for accelerating export diversification. Previous policies have contributed to increasing the level of self-sufficiency of many commodities, particularly the three major domestic food crops (rice, corn and RK beans) for which Belize also needs export markets.

The overall policy objective is to increase productivity and product quality of domestic food crops so as to compete in both domestic and export markets. The specific objectives are to:

- Improve productivity of these commodities to compete in the domestic market at lower levels of protection and in export markets.
- Facilitate exports to contribute to export diversification and foreign exchange earnings.
- Enhance food security and improve income of farmers, particularly smaller producers.
- Promote more sustainable farm production systems that contribute to better management and use of the natural resource base and the environment.
- Improve the commercial viability of smaller producers.

Annex IV: BELIZE'S ECONOMIC STRUCTURE, PERFORMANCE, FEATURES AND POLICY ISSUES

1. ECONOMIC STRUCTURE

Belize's economy is predominantly oriented towards agriculture, which contributed respectively to 15.64% and 14.36% of GDP in 1999 and 2000. Forestry, logging and fishing contributed a further 7.12% and 6.67%, thus bringing the overall agriculture contribution to 22.76% in 1999 and 21.03% in 2000. At constant prices 1984, the growth of agriculture output was of 8.9% in 1999 and 3.4% in 2000, whilst fishing output grew by 29.8% and 7.8%, reflecting investment in aquaculture and shrimp farming.

Over the last two years, performance in agriculture and fishing was primarily driven by increased production of citrus fruits, bananas and farmed shrimps. Marine products now represent 16.62% of total domestic exports (third export earner). Sugar continues to be a major export earner (second with 18.62%), whilst citrus is the first most important crop in terms of exports (29.64%). Orange and grapefruit fruits are processed into frozen concentrated juices and single-strength juice, as well as pulps. These products enjoy duty-free and quota-free access to the US market, and duty-free access to the EU. Bananas are the third most important crop, accounting for 16.45% of total exports. As preferential access for these three crops is to be phased out in the long term, efforts are being made to diversify in non-traditional crops such as papaya, chilli peppers, and vegetables.

Secondary sector activities represented respectively, 23.14% of GDP in 1999 and 25.53% in 2000. The Secondary Sector expanded by 4.5% in 1999 and by 21.9% in 2000. Manufacturing output growth was of 4.2 and 22.4% respectively, translating an expansion in citrus processing and beverage production. Construction expanded by 20.5% and 23.8% translating the impact of investment in road infrastructure and housing. It should be noted that manufacturing includes citrus and sugar processing which account for a large part of this sector. The remaining of the Sector is relatively small, with cigarettes production, textile, and minor products mainly for local consumption.

In 1999, the Services Sector grew by 5.1%, followed by a further 9% in 2000. The sector represented 53.72% of GDP in 1999 and 52.66% in 2000. Tourism, finance and insurance, as well as transport and communication constitute the main areas of activities of the Services Sector. Trade and tourism grew by 3.1 % in 1999 and by 18.8% in 2000, resulting from increased trade activities but also from increased arrival of tourists.

On an eleven-year average from 1990 to 2000, services contributed 53.96% of GDP; the secondary sector provided 25.20% of GDP, and the primary sector 20.83%. Throughout the period 1990-2000, there were no noticeable shifts in the sectoral composition of GDP, reflecting a particular feature of Belize's economy: regardless of its causes, output fluctuations appears to affect sectors almost uniformly, rather than provoking re-adjustments that would shift resources and output among the sectors. However, it appears that Belize's economy is highly dependant on services activities, particularly those related to tourism, transport and communication. Manufacturing and construction are also of importance to the economy. Agriculture and agro-industry made a very sizeable contribution to national production, accounting for most of the output of the primary and secondary sectors.

2. ECONOMIC PERFORMANCE

In order to understand the features and issues underlying the overall economic performance of Belize, it is useful to review the economy from 1980 to 2000, by dividing this period in four segments: the transition period to self-government 1980-1984, the boom period 1985-1990, the deceleration period 1990-1998 and the re-acceleration 1999-2000.

1980-1984: Transit to Self- Government: Independence and self-government had severe impact on the economy: very low and variable positive and negative growth rates combined to cause virtually zero growth, while income per-capita decreased by 3 percent on average. Terms of trade worsened caused by a substantial drop of sugar prices in the international markets. An expansive fiscal policy then resulted in a considerable increases in Government consumption at the expense of capital investment. By the end of the period, the fiscal authorities reined in public expenditure (without improving capital expenditure) and the private sector increased capital expenditure by more than 2 percentage points of GDP, generating jump in growth that returned Belize to positive growth path.

The authorities entered into a Stand-By agreement with the IMF in late 1984 aimed at restoring macroeconomic stability and growth. High priority was given to fiscal restraint while reforms were put in place to enhance the efficiency of the economy and of the public sector in particular. Reform in the fiscal area included a reduction of Government expenditure, particularly the wage bill; further mobilization of resources was sought through an increase in tax rates; and monetary policy was tightened to complete the efforts on fiscal restraint and reduce inflationary pressures. Other reforms included a restructuring of the marketing board and the electricity company with a view towards privatisation (Belize Electricity Limited was privatised in 1992); and privatisation of the Banana Control Board and Belize Telecommunications Ltd. (BTL).

1985-1990: The Boom Period: The stabilization programme set the stage for a remarkable economic boom in Belize. This was strengthened by the consolidation of preferential trade agreements between Belize and the European Union, the United States, CARICOM, and Canada. While the effects of the stabilization program proved to be transitory, the preferential trade agreements have had lasting effects, which persist today. The combination of both factors resulted in the best-ever economic performance of Belize.

Between 1985-1990, Belize grew at an annual rate of 8 percent, ranging from 1 percent in 1985 to 13 percent in 1989. The stabilization program also brought about the expected control in public finances, which relieved the Central Bank from the need to finance public deficits by monetary emission, thereby keeping inflation at bay. Furthermore, the preferential trade agreements resulted in increased export activity. With captive foreign markets for agricultural products, a controlled fiscal deficit with credible management, and privatisation of crucial enterprises providing basic infrastructure, the private sector assertively led the performance of the economy through considerable increases of fixed investment.

Led by fiscal policy, economic policy and management in this period were geared towards responding to the unsatisfactory economic performance of the previous period and the need to wait until the effects of reforms materialize. In the 1985 – 1990 period, the private/public investment ratio increased substantially. In the meantime, despite strong exports (sugar, citrus, bananas, and tourism), high import growth during this period contributed to persistent

trade deficits, which averaged 12 percent of GDP on a yearly basis. However, export growth lagged GDP growth, so that total exports declined as a share of GDP. The increases in imports reflected mainly in increased imports of capital goods. With inflation contained by conservative fiscal and monetary policies, Government was able to maintain its adherence to a fixed exchange rate regime. The current account deficit was financed by strong private capital inflows, which contributed to neutralizing inflationary pressures. This adequate and virtuous combination of fundamentals allowed Belize to maintain a favourable external debt position throughout the period.

In 1989 a new Government was installed, and by 1990, the core of the macroeconomic reforms namely fiscal restraint, was relaxed in weakening economic performance. The economy was increasingly driven a productive structure based on preferential trade agreements with the main commercial partners. This structure was to have a long-lasting impact on the Belizean economy.

1991-1998: Deceleration: The deceleration period started in 1991, with a 3.2 percent GDP growth rate compared to 10.2 percent in 1990. From 1991 to 1998 GDP grew less by 4 percent per year on average, with a further downward trend between 1994 and 1998, with an average growth rate of merely 2.56 per cent of GDP. By the same token bringing down the growth rate of income per-capita from over 5 percent on average per year in the previous sub-period, to an annual average of 1.2 percent to present. In this period, the performance of the economy was affected by three events of different nature: the usual Government cycle of five years was shortened by one year, and a new Government was elected in 1993; the withdrawal of the British armed forces was completed in 1994; and the introduction of a value added tax system in 1996.

From 1991 to 1993, increasing public consumption and investment worsened General Government finances. However, with a tight monetary policy, the fiscal deficits were financed mainly through domestic borrowing, which crowded out private investment to some extent. While public investment reached around 13.5 percent of GDP, almost doubling its previous GDP contribution, private fixed investment declined from almost 20 percent of GDP in 1988 to around 15 percent of GDP between 1991 and 1993.

The main challenges faced by the incoming Government elected in 1993 were the fiscal deficit and the withdrawal of British troops in 1994, which caused a 2-percentage points drop of GDP growth recorded that year. Adverse weather conditions and weaker prices for the citrus concentrates and sugar, together with reduced Government fixed investment, contributed to the growth decline.

From the end of 1994, the authorities took corrective measures to control the deficit, including a reduction of 9 percent of the civil service in December 1995, reintroduction of the economic citizenship program (sales of passports), freezing the public sector wage bill, and cutting domestically financial capital outlays. However, disappointing revenue collections, maintenance of generous tax incentives, and wage increases to civil servants offset the positive effects of the previous corrective measures. At the beginning of 1997, a 15 percent VAT was introduced, which allowed for an increase in revenue and some improvements in the overall fiscal situation. Between 1996 and 1998, the economy recorded slow growth with only minor gains in agricultural exports. The average yearly real growth rate fell lower than 2.5% of GDP, so that real income per-capita could not grow. By the end of 1998, the rate unemployment reached 14.3 per cent.

Within this context, in August 1998, a new Government was elected with an overwhelming parliamentary majority, on the basis of an ambitious platform of economic growth, social development and poverty reduction.

Re-acceleration: 1999-2000: The new Government (PUP) adopted measures to stimulate growth, through high levels of public investment, in particular in essential economic and social infrastructure, as well as housing. In order to encourage private sector activity, the 15% VAT was replaced with an 8% sales tax, and the rates applied to the business and personal income taxes were reduced. These measures started to show results from 1999 onwards, which saw the economy re-accelerate.

Real GDP grew by 6.4% in 1999 and by a further 10.5% in 2000. Unemployment rate fell from 14.3% in 1998, to 12.8% in 1999 and 11.5% in 2000. Inflation was virtually non-existent. This recent economic performance is traceable by and large to increases in traditional agriculture (additional production of sugar, citrus and bananas), non-traditional exports (culture shrimps, papayas and peppers), financial services, tourism and expansion of the construction industry.

Larger public investment in economic and social infrastructure, as well as in housing, also contributed to enhanced growth of the economy. Additional public spending was funded by the privatisation of public enterprises and utilities (Belize Electricity LTD., Belize Telecommunication LTD., and the Water Authority), as well as by increased external borrowing.

As a result of an expansionist economic policy, internal and external imbalances have worsened. The fiscal deficit, without incorporation of the results of the privatisation schemes and external borrowing, has increased over the last two years. At the end of 2000, the overall fiscal deficit stood at 9.30% of GDP, compared to 2.3% in 1998. At current prices, Central Government's current revenues and expenditures rose by 19.6% and 18.6%, respectively from 1998 to 2000. As percentage share of GDP, both current revenues and current expenditures remained flat, with respectively 23.33% and 20.43% of GDP in 2000, compared to 23.39% and 20.65% in 1998. Total capital expenditure rose by 76.6% in 1999, and a further 51.54% from 1999 to 2000, reaching 16.59% of GDP in 2000, representing BZD 250.5mn. Locally funded capital expenditure represented BZD 69.4mn, whilst foreign funded capital expenditure stood at BZD 181.1mn at December 2000, accounting for 72.3% of total capital expenditure. Substantial outlays were made in 2000, on hurricane rehabilitation (BZD 20.3mn or 8.10% of total capital expenditure), road construction, housing, purchase of equipment and vehicles.

At current prices, the merchandise imports have increased by 37.84% from 1998 to 2000, whilst merchandise exports only grew by 9.15% over the same period. Total merchandise imports stood at 53.46% of GDP by December 2000, against 46.51% in 1998, whilst merchandise exports stood at 28.11% of GDP in 2000 against 30.88% in 1998. The trade deficit grew from 15.63% of GDP in 1998 to 25.35% in 2000, representing an increase of 62.19%.

At the end of 2000, the current account deficit stood at 17.33% of GDP, against 6.27% in 1998 and 9.55% in 1999. Capital inflows resulting from grants, external borrowing and sales

of assets, however contributed in an overall increase of the balance of payments (+ 6.83% of GDP in 2000) and to an improvement of Gross Official International Reserves which stood at 16.27% of GDP in 2000, against 6.97% in 1998. Import cover of reserves was estimated at 3.3 months at the end of 2000, against 1.6 months at the end of 1998.

Belize's fixed exchange stood under some pressure, with a widening current account deficit. Central Bank was rationing access to foreign exchange to ensure debt servicing and payment of imports rendered necessary by the public investment programme, as well as of essentials goods, such as flour, fuel and construction equipment.

The disbursed outstanding external debt increased by 57.3% from 1998 (US\$ 260.7mn) to 2000 (US\$ 410.1mn), and stood at 54.3% of GDP at the end of 2000, with an external debt service ratio of 10.6%. Recent additional external borrowing in 2001, rendered necessary to fund the rehabilitation of the economy, badly affected following Hurricane Keith in October 2000 (damages were estimated at 40% of GDP), could push the outstanding external debt well above 60% of GDP, with a debt service ratio exceeding 12%. The domestic outstanding debt stood at BZD 171.9mn or 11.38% of GDP in 2000, against BZD 180mn or 14.29% of GDP in 1998. Adding the outstanding domestic debt to the outstanding external debt represents US\$ 496.45mn or 65.76% of GDP.

Money Supply (M2) grew by 25.86% from 1998 to 2000, whilst the weighted average lending rate decreased by 0.5% and stood at 15.8% in 2000, compared to 16.3% in 1998. However, excess liquidity and minimal competition was conducive to a widening of the commercial bank's interest rate spread which stood at 10.8% in 2000, against 10.3% in 1998, reflecting a decrease in the average deposit rate, from 6% in 1998 to 5% in 2000.

3. FEATURES, CHALLENGES AND ISSUES FOR ECONOMIC POLICY AND DEVELOPMENT

A. Features and characteristics of Belize's economy

Economic performance since independence highlights the typical characteristics of a small open economy:

- 1) it is highly vulnerable to external shocks (departure of British Troops in 1994, for example);
- 2) its productive base is limited to the production of a few agricultural commodities (sugar, citrus and bananas);
- 3) the private sector is small and behaves frequently in a monopolistic manner;
- 4) through preferential markets with the USA, CARICOM and EU, the economy is heavily dependant on a few export markets.

Between 1980 and 2000, real growth of economic output has been variable, with growth rates within sectors being volatile. Through the whole period, the average growth rate for the services sector has been the highest, and the primary sector growth rate had the highest variability. These economic fluctuations resulted from internal and external shocks, with transitory and permanent effects, as well as from different options in economic management and structural changes initiated by Government (such as privatisation).

The fixed exchange rate between the Belize dollar and the US dollar (2 to 1) provided a means for containing inflation, whilst at time restrictive monetary policies were adopted to

offset expansive fiscal policies. Private investment has played a role as a source and generator of economic growth, as well as public investment. The authorities were regularly faced with pressures to increase spending, incurring large fiscal deficits. To compensate, monetary policy remained tied, bringing about high interest rates, discouraging private consumption and investment, hurting economic growth and employment. On the other hand, the application of lower taxes, increased public investment financed through external borrowing, had positive impact on growth and employment whilst stressing internal and external balances, as well as foreign exchange markets.

B. The challenges for economic policy and development

The main challenge confronted by Belize, in terms of economic policy, will be to implement the right mix of measures and to manage the economy in such a way to sustain real economic growth, at a level which would contribute to create employment and facilitate further improvement in the living conditions and well-being of all Belizeans. In the area of macro-economic policy, the challenge will be dual: (1) in establishing stable and sustainable internal balances through appropriate fiscal policy; and (2) consolidating and maintaining external balances while facing the loss of protected markets for main exports.

Sound and credible management of public finances, mixed with adequate monetary policy, increased private sector participation and investment, will be critical requirements to confront those challenges. Equally challenging will be to contain the recent increase in external debt obligations, whilst implementing public investment and promoting private investment in the productive sectors, in order to generate revenues to facilitate debt servicing.

Economic policy should also promote adjustments in the productive structure of the economy in order to compensate from the losses of income and employment likely to follow as the preferential trading arrangements are phased out. Indeed, Belize continues to face increasing pressures on its major agriculture exports as prices for citrus, sugar and banana continue to decline, even as production in the banana and citrus industries has increased. The World Bank has indicated that as the preferential prices enjoyed by Belize's major agriculture products erode "...real GDP could decline by 1-2 % per year, foreign exchange earnings could drop by as much as 6% per year and an additional 500 people each year could fall into poverty...". In this context, the challenge will be for Belize to improve productivity and competitiveness in traditional agriculture, whilst diversifying further into promising non-traditional agriculture and agro-industry with a potential for exports or imports substitution.

The tourism industry continued to show great promise in 2000. Visitor arrivals were up by 8.1%, occupancy rates have increased from 31% to over 44% and the number of cruise ship visitors has increased by 53%. Continuous growth of tourism requires Belize to implement an economic policy that would provide incentives for further investment in the tourism industry and that would continue to improve the overall enabling environment to sustain such investment.

C. Major macroeconomic issues

The performance of exports and tourism flows: Whilst growth in output of agricultural products for export was of 8.9% in 1999 and of 3.4% in 2000, the share of exports to GDP went down from 30.88% in 1998 to 28.11% in 2000. Similarly, whilst trade and tourism grew by 3.1% in 1999 and 21.9% in 2000, the share of tourism inflows to GDP reduced from

16.04% in 1998 to 15.70% in 2000.

In consideration of the widening trade deficit, it is critical for Belize to increase revenues from exports and tourism. While continuing to take advantage of the current preferential trading arrangements, the imperative necessity to increase the competitiveness of traditional exports is once more confirmed, as well as the need to diversify from the commodity export base.

This will require enhanced market information and marketing strategy, improved technology, increased availability of skills, expansion in relevant infrastructure, improved access to credit and extension services. Belize shall also have to stimulate tourism growth further and attempt to diversify its service exports (in adequately regulated offshore financial services and information technology).

Fiscal performance, excess liquidity and external debt obligations: As highlighted in the 2001 IMF Article IV Consultation with Belize, the non-financial public sector deficit increased from 8.2% of GDP in fiscal year 1999/2000 (April to March) to 9.7% of GDP in 2000/2001. Current revenue contracted from 23.4% of GDP to 22.4% in FY 2000/01, possibly due to a lack of tax buoyancy, reflecting increased tax exemptions for new activities. Total expenditure increased from 33.6% of GDP in FY 1999/2000 to 34.4% of GDP, as capital expenditure outlays increased from 13% of GDP in FY 1999/2000 to 15.5% of GDP in FY 2000/01.

The deficit was financed through privatisation receipts and substantial external borrowing, mostly on commercial terms. At the same time, the DFC expanded its lending operations by 10% of GDP, also financed through external borrowing. As a result, the public and publicly guaranteed external debt increased from 48% of GDP at the end of 1999, to 67% at end-2000. The expansionary fiscal stance, combined with the liquidity injection through the DFC operations, increased the liquidity overhang in the economy, and created pressure in the foreign exchange market.

In order to contain external debt obligations, safeguard the exchange rate regime, the Government has agreed on the urgent need to correct the fiscal imbalances, and will accordingly seek to reduce the non-financial public sector deficit to 1% of GDP over a three year period, through a reduction in investment expenditure and improvement in fiscal revenue collection. The Government also intends to review the DFC operations in light of its loan portfolio and subject it to banking sector supervision.

As suggested by the IMF, it is believed however that the authorities should also consider additional fiscal measures, such as a reduction in import duty and tax exemptions, the reversal of some of the 1999 tax cuts, and the tariffication of quantitative imports restrictions, which would bring additional revenues.

With national elections scheduled in 2003, economic policy management will likely depend on political considerations. Economic stability priorities for the medium-term may then lose momentum to short-term political objectives.

Financial sector – high interest rates: A major issue facing the economy is the high level of interest rates, which constrain investment in productive sector activity. Explanations for the high rates include: a tradition of conservative monetary policy in the absence of adequate

fiscal adjustment, small market size, oligopolistic structure of the banking industry and a relatively small non-bank financial market.

The credit policy of the Government may have only partly succeeded in driving some reduction in the lending rates from the Commercial Banks; this, in spite, of a Central Bank reduction in commercial banks' reserve and liquid assets requirements. The Development Finance Corporation has meanwhile substantially expanded its loan portfolio, through mortgages and investment loans at the respective rates of 12 and 13%. The mortgage rate applied by Commercial Banks has reduced to 12%, but lending rates for investment remain high, whilst the DFC, hence the Government, are subject to higher risks in case of default of borrowers.

It is felt that DFC should continue to play a role in facilitating access to credit for productive investment, whilst securing and restructuring its portfolio. Measures and appropriate incentives should be considered to promote the development of a larger non-bank financial market, possibly involving the Credit Unions. A comprehensive analysis of the financial sector could also be undertaken in order to understand what prevents Commercial banks to apply lower interest rates, and to define appropriate measures and incentives to achieve such reduction.

4. FUTURE ECONOMIC PERFORMANCE

The future economic performance of Belize, for 2001-2002, might be altered by the still to come impact on growth of Hurricane Keith damages, on agriculture and agro-industry in particular. The Government has engaged in a recovery programme, which will attempt to offset potential negative effects of Hurricane Keith. Immediate impact of reconstruction of infrastructure and investment in disaster preparedness might however boost GDP.

Construction will expand further as a result of substantial inflows from project-related official financing sources, but by the end of 2002, growth in this sector is expected to slow as post-hurricane reconstruction, house building programme and some large infrastructure projects come to completion. Growth in tourism, fisheries (shrimp farming) and non-traditional exports (papayas and pepper) should continue, whilst exports prices of sugar, citrus and bananas shall impact on overall agricultural growth. Inflation is likely to increase as a result of higher prices of fuel and possible higher demand for consumption items.

In this context, the economy is expected to grow slower than in 2000, with a possible growth rate between 5 and 7%.

5. BELIZE'S EXTERNAL TRADE FLOWS TO THE EU

The United States of America (USA) are Belize's main trading partner, accounting for 50% of Belize's exports and 53% of Belize's imports. The EU accounts for 47 % of Belize' exports but only for 8% of its imports (1999).

In year 2000, tourism was the top foreign exchange earner, closely followed by exports of citrus concentrate. Other major exports included cane sugar, bananas, marine products, garments, timber and off-shore financial services.

The trade balance with the EU is traditionally positive for the country. In 2000 Belize's exports to the EU amounted to € 142 Million, compared to € 80.9 Million in 1995, thus corresponding to an increase of 75% in five years. Imports from the EU stood at € 44 Million, compared to € 33 Million in 1995, representing an increase of 33%.

Belize's main exports to the EU were: bananas (29%), sugar (18%) and fruit juices (8%), as well as frozen fish (20%), crustaceans (8%) and molluscs (7%).

Belize mainly imported prefabricated buildings (11.5%), alcohol (10.5%), milk and cream (9%), and cheese and curd (7%), as well as motor vehicles, machinery, bulldozers and tractors totalling 9.1% of total imports from the EU.

The main EU Member States trading partners of Belize are the United Kingdom, the Netherlands, France, Denmark, Italy and Ireland.

As far as bananas are concerned, the EU is the single importer of Belize's bananas, which accounted for almost BZD 66 Million of export earnings in 2000. During the same year, nearly 70% of Belize's sugar exports were traded to the EU, which remain a key market for Belize's agricultural exports.

The most part of EU imports of marine products, frozen fish in particular, originate from fishing vessels carrying Belize's pavilion. In this area, the EU is looking forward to the Government of Belize establishing the adequate regulatory instruments and authority to ensure appropriate sanitary and quality controls on fisheries products for export to the EU market. Such instruments and authority would later contribute to increased exports of Belize's farmed shrimps and aquaculture products.

BELIZE: MAJOR ECONOMIC INDICATORS

CALENDAR YEAR BASIS	1994	1995	1996	1997	1998	1999	2000
POPULATION AND EMPLOYMENT							
Population (Thousands)	211.0	216.5	222.0	230.0	238.0	243.0	249.8
Annual Population Growth	2.9	2.6	2.5	3.6	3.5	2.9	2.6
Employed Labour Force (Thousands)	62.4	62.6	65.0	70.7	73.3	77.8	80.0
Unemployment Rate)	9.0	12.5	13.8	12.7	14.3	12.8	11.5
INCOME							
GDP at Current Market Prices (BZDmn)	1,104.0	1,174.4	1,211.4	1,235.0	1,259.2	1,375.6	1,509.9
Per Capita GDP (BZD, Current Mkt. Prices)	5,232.2	5,424.5	5,456.8	5,369.6	5,290.8	5,660.9	6,044.4
Real GDP Growth (%)	1.4	4.0	1.5	4.2	1.7	6.4	10.5
Sectoral Distribution of Constant 1984 GDP (%)							
Primary Activities	19.8%	20.2%	21.0%	22.7%	21.9%	23.1%	21.8%
Secondary Activities	25.6%	25.4%	25.0%	24.2%	23.6%	23.1%	25.5%
Services	54.6%	54.4%	54.0%	53.1%	54.5%	53.8%	52.7%
MONEY AND PRICES (BZDmn)							
Inflation (Annual average percentage change)	2.6	2.9	6.4	1.0	-0.8	-1.2	0.6
Currency and Demand deposits (M1)	157.2	165.0	177.6	186.0	206.1	255.1	310.2
Quasi-Money (Savings and Time Deposits)	355.6	448.5	467.8	524.1	561.3	585.1	655.7
Money Supply (M2)	512.8	613.5	645.4	710.1	767.4	840.2	965.9
Ratio of M2 to GDP (%)	46.4%	52.2%	53.3%	57.5%	60.9%	61.1%	64.0%
CREDIT (BZDmn)							
Commercial Bank Loans and Advances	405.7	440.7	480.9	547.3	625.6	654.9	695.4
Public Sector	0.4	2.7	2.9	5.2	18.9	8.4	11.2
Private Sector	405.3	438.0	478.0	542.1	606.7	646.5	684.3
Net Credit to Central Government	90.5	122.5	81.8	100.0	123.3	117.5	42.0
INTEREST RATE (%)							
Weighted Average Lending Rate	15.0	16.3	16.2	16.6	16.3	16.3	15.8
Weighted Average Deposit Rate	6.1	7.2	6.2	6.7	6.0	5.7	5.0
Weighted Average Spread	8.9	9.1	10.0	9.9	10.3	10.6	10.8
CENTRAL GOVERNMENT FINANCES (BZDmn)							
CALENDAR YEAR BASIS							
Recurrent Revenue	265.1	259.9	276.6	282.9	294.5	327.1	352.2
Recurrent Expenditure	233.8	239.8	234.7	252.2	260.0	278.8	308.4
Recurrent Account Surplus/Deficit	31.3	20.1	41.9	30.7	34.5	48.3	43.8
Total Capital Expenditure (Cap II & Cap III)	111.0	83.2	75.3	81.8	93.6	165.3	250.5
Overall Surplus/Deficit	-65.2	-46.9	-4.6	-25.3	-28.6	-29.1	-140.4
Deficit as % GDP at market prices	-5.9%	-4.0%	-0.4%	-2.0%	-2.3%	-2.1%	-9.3%
Domestic Financing (Net)	24.5	33.1	-40.9	19.5	27.6	-8.6	-71.9
External Financing (Net)	27.1	3.7	46.6	5.8	14.2	38.5	213.5
BALANCE OF PAYMENTS (US \$mn)							
Merchandise Exports (f.o.b)	156.3	164.3	171.3	199.9	194.4	213.2	212.2
Merchandise Imports (f.o.b)	233.2	230.5	229.5	280.8	292.8	337.5	403.6
Merchandise Trade Balance	-76.9	-66.2	-58.2	-80.9	-98.4	-124.3	-191.4
Remittance (Inflows)	13.0	25.4	24.4	27.8	31.2	40.6	56.5
Tourism (inflows)	71.4	87.1	93.1	96.5	101.0	108.0	118.5
Services (net)	50.1	56.0	53.1	52.1	49.6	53.4	52.7
Current Account Balance	-20.3	7.3	2.3	-16.6	-39.5	-65.7	-130.8
Current Account/GDP Ratio	-3.7%	1.2%	0.4%	-2.7%	-6.3%	-9.6%	-17.3%
Capital and Financial Flows							
Overall Balance (minus = increase)	34.4	-25.9	-1.2	21.3	23.1	92.2	175.5
Gross Official International Reserves	4.3	-3.1	-20.9	-1.0	15.4	-27.2	-51.6
Import Cover of Reserves (in Months)	34.1	37.4	58.3	59.3	43.9	71.1	122.8
	1.3	1.3	2.7	2.5	1.6	2.3	3.3
PUBLIC SECTOR DEBT							
Disbursed Outstanding External Debt (US \$mn)	184.0	184.3	219.8	240.7	260.7	252.5	410.1
Ratio of Outstanding Debt to GDP at Mkt. Prices (%)	33.3	31.4	36.3	39.0	41.4	36.7	54.3
External Debt Service Payments (US \$mn)	24.0	29.8	29.7	30.7	33.2	33.4	40.6
External Debt Service Ratio (%)	8.1	9.9	9.6	9.0	9.8	8.9	10.6
Disbursed Outstanding Domestic Debt (BZDmn)	150.2	164.2	171.9	171.9	180.0	171.5	171.9

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Sources: Ministry of Finance, Central Statistical Office, Central Bank of Belize