

BELIZE

IDB COUNTRY STRATEGY WITH BELIZE

IDB GROUP

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Acronyms

BAHA	Belize Agricultural Health Authority
BELTRAIDE	Belize Trade and Investment Development Service
CAFTA	Central American Free Trade Agreement
CARICOM	Caribbean Community
CBB	Central Bank of Belize
CDB	Caribbean Development Bank
CEA	Country Environmental Analysis
CSBL	2004-2008 Country Strategy with Belize
DFC	Development Finance Corporation
DFID	Department for International Development (United Kingdom)
ECLAC	Economic Commission for Latin American and Caribbean Countries
EU	European Union
EPZs	Export Processing Zones
ERF	Emergency Reconstruction Facility
FTAA	Free Trade Area of the Americas
FY	Fiscal Year (April 1 – March 31)
GDP	Gross Domestic Product
GoB	Government of Belize
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICDF	International Cooperation Development Fund (Republic of China, Taiwan)
IDB	Inter-American Development Bank
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
LAC	Latin American and Caribbean Countries
MDGs	Millennium Development Goals
MIF	Multilateral Investment Fund
NEMO	National Emergency Management Organization
NHI	National Health Insurance
NPESAP	National Poverty Elimination Strategy and Action Plan
OVE	Office of Evaluation and Oversight
PAHO	Pan-American Health Organization
PBL	Policy-based Loan
PPP	Plan Puebla Panama
PRI	Private Sector Department
PS	Public Sector
PUC	Public Utility Commission
PUP	People's United Party
RE2	Regional Operations Department II
TC	Technical Cooperation
UDP	United Democratic Party
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
WB	World Bank
WHO	World Health Organization
WTO	World Trade Organization

Executive Summary

Introduction

Belize became an independent country in 1981 and joined the Bank eleven years later in 1992, becoming the newest regional member of the Inter-American Development Bank (IDB). The country has a small and open economy with a GDP of US\$1 billion oriented toward traditional agriculture (i.e., sugar, banana and citrus), agro-processing, aquaculture and tourism. During the 1990s, Belize outperformed the rest of Latin America in terms of economic growth. Since 1998, the economic strategy of the Government of Belize (GoB) has been to stimulate growth and private sector development through increasing public investments. The effectiveness of this economic strategy was diluted by successive natural catastrophes, which precipitated fiscal imbalances and the acceleration of external indebtedness.

A major test for the Belizean authorities will be to initiate a successful transition from a public sector-led growth strategy to one that emphasizes improving the public sector's capacity to foster private sector-led growth, within the context of fiscal retrenchment, lower public investments, debt reduction, phasing out of preferential trade agreements and new regional integration initiatives. In addition, even though Belize has one of the highest average per capita incomes in the Central American Isthmus, it must increase the efficiency of public sector's expenditures in order to reduce poverty and social inequities.

Key Development Challenges

- (i) **Increasing Macroeconomic Stability.** An essential condition for Belize's economic and social development is the enhancement of macroeconomic stability by reducing fiscal deficits and its external debt burden. Sound macroeconomic policies are essential for attracting investments that Belize needs for private sector-led growth and for reducing poverty.
- (ii) **Fostering Private Sector-led Growth.** Although the business environment in Belize is favorable for entrepreneurial activities, some challenges lie ahead. Major efforts need to be oriented toward reassessing investment incentive schemes in light of upcoming trade negotiations; revising export diversification and promotion strategies; reducing utility costs and enhancing rural infrastructure; improving access to credit for small, medium and micro enterprises; and designing a public-private strategy to manage tourism growth.
- (iii) **Promoting Environmental Sustainability and Growth.** Belize's natural resources are both the source of livelihood for Belizeans and the very foundation of growth in key sectors of the economy, particularly agriculture, aquaculture, and tourism. In order to be sustainable, economic growth should be accompanied by a policy and investment climate that are conducive to maintaining the natural resource base while preventing losses in environmental quality that could affect adversely the country's

competitiveness. In this context, disaster risk management also constitutes a challenge in view of Belize's vulnerability to natural disasters and other external shocks.

(iv) **Promoting Human Development.** Poverty in Belize is characterized by its high volatility due to the openness of the economy and the fact that the poor work in agriculture producing traded goods. At the same time, extreme poverty is concentrated in the southern district of Toledo, where most of its population is of Mayan origin. Poverty alleviation policies need to address both issues, reducing vulnerability to external shocks and augmenting the assets of the extremely poor. Additionally, labor supply has not been a binding constraint for private investment, even though skilled labor has not grown at the same pace as the labor force. Finally, the country needs to continue to implement health reforms and improve access to education in order to be able to reach its Millennium Development Goals (MDGs) targets.

2004-2008 IDB Country Strategy with Belize

The 2004-2008 Country Strategy with Belize (CSBL)¹ is the result of an extensive dialogue and consultation process, which started prior to the national elections of March 5, 2003 and continued throughout the year. The process included interviews and exchange of information with several government officials, representatives from bilateral and multilateral development agencies in Belize and Washington D.C. as well as with members of the Belizean private sector and civil society.

After a comprehensive review of available information, the Bank initiated analytical work to identify key development challenges that affect Belize's competitiveness, a core issue of this CSBL. As a result, two major activities were implemented. First, the Bank conducted a survey of major private sector enterprises to assess the most relevant constraints that inhibit their competitiveness. This initiative led to the "IDB-Private Sector Business Forum" in Belize City (June 18, 2003), which was prepared with the support of the private sector windows of the Bank Group. Major firms and associations in Belize actively participated in this Forum.

Second, the Bank Group held a meeting with high-ranking officials of the GoB to discuss key development challenges and prospective areas for collaboration (June 19, 2003, in San Pedro). Discussions were based on the Policy Dialogue Paper: "Belize: Towards Sustainable Growth and Competitiveness," which was prepared by the Regional Operations Department II (RE2) for the occasion. These activities constituted the basis for this Country Strategy and were complemented by a portfolio review mission in October 2003 as well as identification missions from several operational divisions of the Bank Group, promoted by the Country Office and RE2/Country Division 3.

¹ The period covered by the 2004-2008 IDB-Country Strategy is from April 2003 to March 2008, which corresponds to the second administration of Prime Minister Said Musa.

Finally, the IDB's Office of Oversight and Evaluation (OVE) prepared a Country Program Evaluation for Belize covering the 1993-2003 period. Several findings and recommendations have been taken into consideration in the preparation of this Country Strategy.

Country Strategy Lending Scenarios

Prospective lending activities of the Bank will be based on two working scenarios for the 2004-2008 period. The identification of potential operations for 2007-2008 will be carried out during the annual programming exercise of the Bank with the authorities.

Baseline-lending Scenario: In this case, Bank's operations will finance projects that under the existing economic setting and executing capacity would increase the public sector's capacity to foster private sector development and promote the sustainable development of economic activities with high growth potential. Under this scenario, as summarized in Annex I, the Bank proposes the following operations: a Solid Waste Management project (2004), a Program for Trade and Competitiveness (2005), and a Program for Sustainable Tourism (2005). Furthermore, prospective operations will be identified for 2007-2008, taking into consideration the absorptive capacity and indebtedness level of the country. Also, the Bank will look for ways to enhance this scenario by additional financing from its private sector windows.

High-lending Scenario. An additional policy-based loan (PBL), Support to Public Sector Management (2006), will be considered to assist the GoB in consolidating ongoing public sector reforms. Consideration for this scenario will be subject to a series of reform efforts, as presented in Chapter III, Section B.3 of this document.

Risks

Major risks include: the GoB's partial implementation of broad public sector's reforms, which could adversely impact the business climate as well as private sector's confidence and investment; a weak response by the Belizean private sector to the Bank's initiatives and the GoB's policies; and the vulnerability of the economy to natural disasters and environmental deterioration. These risks will be mitigated by: supporting the GoB to implement policies that establish appropriate macroeconomic conditions as well as create a better environment for private sector-led growth; encouraging private sector participation through a continuing dialogue and the promotion of the Bank's financial, non-financial instruments and other initiatives (e.g., Business Climate Assessment, Forum on Competitiveness, etc.); assisting the GoB to evaluate and implement mechanisms for catastrophe risk management and improving the diagnostic, monitoring and enforcement capacity of environmental regulations (e.g., Country Environmental Analysis).

Monitoring of the Country Strategy and Indicators

This Strategy includes a set of indicators that will permit the Bank to monitor the implementation of the CSBL as well as public and private sectors' performance. These indicators are presented in the Matrix of this Country Strategy. Monitoring progress of the implementation of the CSBL includes the following monitoring activities, to be executed by the Country Office in Belize in coordination with the RE2: (i) an annual review and assessment of indicators with the GoB and major bilateral and multilateral development agencies; and (ii) an annual review and assessment of identified indicators for private sector performance.

IDB Country Strategy with BELIZE: Matrix

CSBL Goals/Monitoring Indicators
Economic Growth: maintain economic growth at an annual rate of 3.6% of the GDP (FY2004/05- FY2007/08)
Environmental Sustainability: maintain or improve Environmental Indexes for Belize to be developed as a part of the CEA. Prospective indicators will be: (i) water quality; (ii) urban sanitation and safe waste disposal; (iii) deforestation rate; (iv) coral reefs protection; and (v) effective protection of national parks and archeological sites (baseline: 2004)
Poverty: reduce extreme poverty from 10.5% in 2003 to less than 9% by 2008 (MDGs)

CSBL Strategic Objectives	GoB Medium Term Strategy	Donor Community	IDB Strategy	IDB Actions		Performance Indicators	
				In Execution	Prospective	IDB CSBL	Country Targets
Strategic Area I: Improvement of the Public Sector's (PS) Institutional Capacity to Foster Private Sector Development							
1. Macroeconomic Stability	Reduce Central Government's deficits, debt and debt services to sustainable levels	CDB: governance and efficiency in public policy formulation DFID: macroeconomic stability and governance EU: institutional capacity-building of public administration (non-focal area) IMF: macroeconomic stability — banking supervision UNDP: Democratic Governance	(i) Improve the efficiency, transparency and effectiveness of PS expenditures		PBL Loan: Support to Public Sector Management (2006) TC: Support to Public Sector Management (2004-05): (i) public sector expenditure review component	- Comprehensive PS expenditure review initiated by FY2004/05	- Implement the recommendations on integrated fiscal management and expenditure rationalization derived from the comprehensive PS expenditure review by FY2005/06
			(ii) Enhance GoB's debt management capacity	TC: Support to the GoB on Public Debt Assessment (2003)	TC: Support to Public Sector Management (2004-05): (ii) public sector debt management component	- PS debt management strategy developed by FY 2005/06	- Implement a PS debt management strategy plus sound fiscal policies to reduce Debt/GDP ratio on public debt from 66.5% of GDP in 2003 to 63.6% of GDP in 2007
			(iii) Improve the GoB's monitoring capacity on the PS performance		TC: Support to Public Sector Management (2004-05): (iii) information system component	- Information system in operation at the Central Bank to monitor PS performance by FY 2005/06	
			(iv) Upgrade the tax system		TC: Modernization of Tariff and Excise System (2004)		- Increase tax collections from 18.4% of GDP in FY2003/04 to 20.3% in FY2007/08
			(v) Strengthen the supervision of banking and non-banking activities	TC/MIF-IMF: Strengthening Banking and Non-Banking Supervision (2003)		- Banking and non-banking institutions under the supervision of the CBB using international standards by FY 2007/08	
			(vi) Increase the GoB's capacity to respond to natural disasters and other risks		Country Environmental Analysis (2004) TC: Financial Capacity for Managing Catastrophes and other risks by (2006/07)	- Strategy for managing financial risk due to natural disasters developed by FY2006/07	-Implement a risk management strategy to reduce annualized probable losses by 25% by FY2007/08

CSBL Strategic Objectives	GoB Medium Term Strategy	Donor Community	IDB Strategy	IDB Actions		Performance Indicators	
				In Execution	Prospective	IDB CSBL	Country Targets
Strategic Area I: Improvement of the Public Sector's Institutional Capacity to Foster Private Sector Development (continued from previous page)							
2. Trade Facilitation and Competitiveness Enhancement	Develop institutional capacity to formulate trade policy, facilitate exports and negotiate agreements with other countries Increase the competitiveness of the agriculture and aquaculture sectors Facilitate access to credit for small and medium enterprises Reduce the cost of public utilities by promoting competition and effective regulation Establish vocational and technical training programs	CDB: promotion of regional, infrastructure and agricultural development (citrus) EU: development of the agriculture sector - partnerships with the private sector ICDF: Support to food processing and agriculture sector – credit for small farmers	(i) Build technical capacity to take advantage of upcoming regional trade negotiations and implement reforms accordingly to foster private sector-led growth	TC/MIF: Capacity Building for Trade and Investment Promotion (BELTRAIDE) TC: Institutional Strengthening for Trade Negotiations	Loan: Program for Trade and Competitiveness (2005): trade facilitation component - TC: Improving Capacity to Negotiate the FTAA (2004) (Canadian Fund) - Business Climate Assessment and Policy Agenda (2004-05)	- Training and strengthening of the Ministry of Investment, Foreign Trade and Cooperation, and BELTRAIDE completed by FY 2005/06 - Business Climate Assessment and Policy Agenda completed by FY2004/05	- Maintain and/or improve the overall business environment ranking from position 10 of 26 LAC countries in 2000 by FY 2007/08 *
			(ii) Improve the competitiveness of agriculture and aquaculture sectors	Loan: Land Administration II (1189/OC-BL) Loan: Modernization of Agricultural Health Services (1189/OC-BL)	Loan: Program for Trade and Competitiveness (2005): investment component Forum on Competitiveness (2004-05) Country Environmental Analysis (2004)	- Priority infrastructure investments and mechanism to finance small and medium enterprises initiatives identified by FY2004/05 - Environmental and other requirements for export products identified by FY2006/06	- Increase annual growth rate of exports of goods and services to 2.2% (average 2004-2008), ceteris paribus. Base 1.76% (average 1996-2002) - 50% increase of agricultural production certified by international standards in FY2007/08
			(iii) Support the effective regulation of privatized public utilities		TC/MIF: Strengthening the Public Utilities Commission (2004)	- Training and technology transfer to the Public Utility Commission concluded by FY2005/06	- Maintain or improve the overall infrastructure (electricity, telecom, water and sanitation and transportation) ranking from position 9 of 26 LAC (2000) by FY2007/08 *
			(iv) Support human resource development to increase competitiveness		TC: Human Resource Strategy for Competitiveness (2005-06) TC/MIF: Youth Training Programs in IT (2006)	- Belize's Human Resource Strategy for Competitiveness completed by FY 2006/07	
			(v) Improve GoB's data collection, monitoring and evaluation capabilities	TC: Support to the Central Statistical Office	TC: Strengthening Data Collection, Monitoring and Evaluation Capabilities (2005-06)	-Monitoring and evaluation capabilities of the Ministry of National Development strengthened by FY 2006/07	

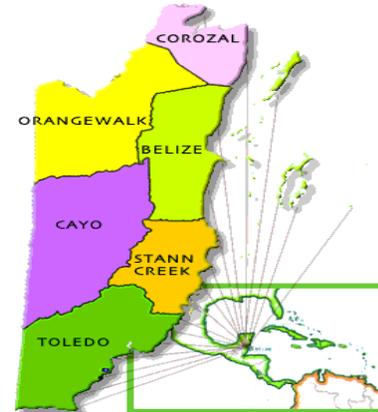
* Investment Climate Country Profile, IDB 2001

CSBL Strategic Objectives	GoB Medium Term Strategy	Donor Community	IDB Strategy	IDB Actions		Performance Indicators	
				In Execution	Prospective	IDB CSBL	Country Targets
Strategic Area I: Improvement of the Public Sector's Institutional Capacity to Foster Private Sector Development (continued from previous page)							
3. Tourism and Environment	Improve tourism-related infrastructure, incorporate new archeological sites while preserving the quality of natural environment.	CDB: Basic sanitation project in Belmopan; emergency assistance EU: Emergency Assistance	(i) Support the consolidation of the tourism sector as the driving force for long-term economic growth and development	Loan: Tourism Development Project (1250/OC-BL) TC: Training in Eco-Tourism	Loan: Program for Sustainable Tourism (2005) TC/MIF: Improving the Competitiveness of Micro and Small enterprises in the Cruise Ship Tourism Sub-sector (2004) TC/MIF: Airport Security Improvements (2004)	- Restoration and maintenance of infrastructure to support tourism growth: at least three archeological sites restored, downtown enhancing in two cities, and public facilities improved between FY2005/06 and FY2007/08	- Increase stay-over visitor s by an annual rate of 2% by FY2007/08 (base year 2002 = 180.000 visitors)
	Enhance disaster preparedness and mitigation	ICDF: Tourism development – Caracol UNDP: Implementation of Global Environmental Facility projects	(ii) Preserve the quality of natural environment	TC/MIF: Strengthening Local Governments and the Solid Waste Management Authority (2003) Loan: Hurricane Preparedness and Rehabilitation Project (1211/OC-BL)	Loan: Solid Waste Management (2004) TC/MIF: Private Sector Participation in Solid Waste Disposal (2004) Loan: Program for Sustainable Tourism (2005) Country Environmental Analysis (2004)	- Comprehensive solid waste management strategy completed by FY2006/07 - Resource flow toward protected areas adjusted to maintain visitors use within carrying capacity by FY 2005/06	- 77% of urban population with access to improved sanitation. Baseline 71% in 2002 (MDGs) - 50% of protected areas and cruise visitors sites with management plans and corresponding resources by FY2007/08
CSBL Strategic Objectives	GoB Medium Term Strategy	Donor Community	IDB Strategy	IDB Actions		Performance Indicators	
				In Execution	Prospective	IDB CSBL	Country Targets
Strategic Area II: Support Private Sector Capacity Building and Specific Initiatives							
1. Private Sector Capacity-building and financing of specific initiatives	Support the development of small medium and micro enterprises Identify and access new markets and develop or adapt appropriate technologies in order to improve labor productivity and quality of products	EU: Agricultural sector development	(i) Increase the productivity of private sector		Loan: Program for Trade and Competitiveness (2005): Technical assistance component	- Markets for sustainable alternative products identified by 2006	- Increase private sector gross domestic investment from 9.8 % of GDP in FY 2002/03 to 13 % in FY 2007/08
		ICDF: Support to food processing and agriculture sector – credit for small farmers	(ii) Support specific private sector initiatives with growth potential		IIC: Wood Processing, Agribusiness, and Expansion of existing tourism operations PRI: Airport	- IDB private sector windows provide support to at least three key industries with growth potential by 2007	
			(iii) Strengthen private sector organizational capacity, networking and dialogue with GoB		TC/MIF: Support to the National Fishermen's Cooperative (2005) -Forum on Competitiveness (2004-05)	- Action plan created by private sector organizations with IDB support after the Forum on Competitiveness by 2005	

Introduction

Belize gained its independence from Great Britain in 1981, and remains a member of the British Commonwealth. Although slightly larger than El Salvador (22,960 square kilometers), Belize has a much smaller population - approximately 265,500 inhabitants – with half living in rural areas. Likewise, it has the lowest population density in the Central American region (10 people per square kilometer).

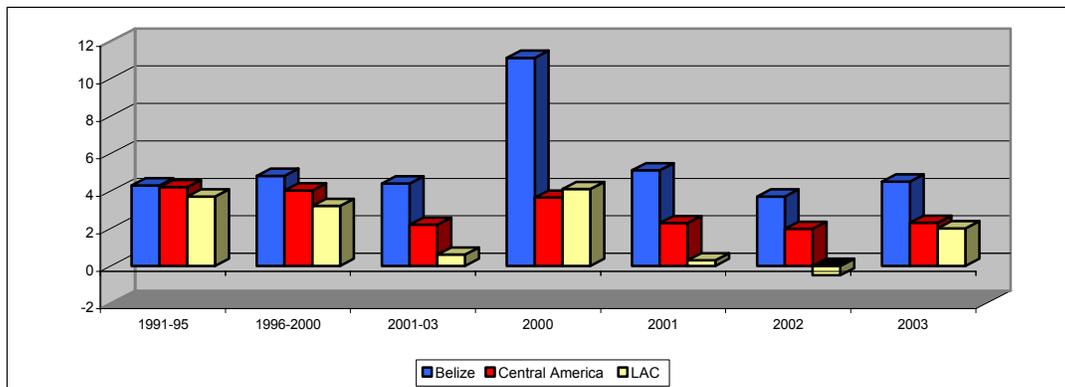
The political environment in Belize is stable. The country has experienced six peaceful democratic elections. There are two major political parties: the People's United Party (PUP) and the United Democratic Party (UDP). These parties alternated in office at every national election until March 5, 2003, when the PUP was reelected. The current administration led by Prime Minister Said Musa, received another strong five-year mandate with an ample majority in the House of Representatives.



Belize has a small and export-based economy with a GDP of approximately US\$ 1 billion oriented toward traditional agriculture (i.e., sugar, bananas and citrus), agro-processing, aquaculture and tourism. During 1991-1998, Belize's economic growth averaged 4.6 percent, outperforming both the Central American region and the rest of Latin American countries (LAC). This was a result of sound economic policies during most of the period, significant inflows of foreign savings, efficiency gains in the agriculture sector and an increasingly dynamic tourism industry.

Graph 1: Comparative Economic Performance, 1991-2003

(Growth rates of GDP in percentages)



Source: IDB data based on the Central Bank of Belize (CBB). Central America refers to all countries in the isthmus except Belize. Data for 2003 are IDB projections.

The first Musa administration (1998-2003) sought to maintain strong economic growth through a combination of increased public investments, subsidized credit to private sector activities and a tax reform that broadened the tax base while lowering rates. These policies achieved their intended growth objective (7.1 percent during 1999-2003), but there is now a need to strengthen the fiscal situation. It is worth pointing out that part of

the deterioration of the fiscal situation was also attributed to a succession of natural catastrophes that struck Belize between 2000 and 2001.²

Medium term economic and social development will be tested by the following challenges. First, as the current administration has recognized, the improvement of macroeconomic stability becomes essential to sustain future economic growth. The recent economic policies increased the fiscal deficits, which in turn increased the total public debt to high levels, from less than 40 percent of GDP in FY 1999/00 to almost 67 percent in FY 2003/04. These figures exclude publicly guaranteed debt, which will add an additional 25.6 percent to the 2003/04 debt /GDP ratio.

Second, current investment incentives schemes need to be reviewed to foster private sector-led growth and exports. This is particularly important in view of the upcoming trade negotiations that may affect the future participation of Belize in the international markets. The phase out of preferential trade agreements in 2006 will have an impact on Belize's main traditional exports, which account for approximately 35 percent of the total value of exports. Furthermore, there will be significant changes in regional markets that will have an effect on Belize's trade potential due to the implementation of the Central America Free Trade Agreement (CAFTA) in 2004; the launching of the Free Trade Area of the Americas (FTAA) in 2005; and the formation of the Caribbean Community's Single Market. The Belizean authorities face the challenge to define a strategy of inclusion in this new regional setting, while the Belizean private sector faces the test of increasing its competitiveness vis-à-vis other countries.

Third, growth and the environment are inextricably linked in Belize since agricultural and tourism activities - both tied to the state of the environment - constitute the backbone of the country's economic and social development. The enforcement of environmental laws is a central issue as well as solid waste management, since they not only impact the environment but also the tourism industry. Additionally, Belize's vulnerability to natural disasters calls for continuing improvements in the country's emergency preparedness, implementing mechanisms for catastrophe risk management and enhancing land use planning.

Finally, the GoB is committed to reducing poverty and improving human development. The MDGs for Belize, which the GoB has subscribed to, illustrate the magnitude of this challenge (Annex II). National social indicators for Belize are relatively high and there is indication that they improved along economic growth. However, these levels hide large regional disparities. Poverty, not only measured in monetary terms, but along a wide array of social indicators, is concentrated in the south of the country. Alleviating poverty in the medium to long-term and enhancing the living standards of Belizeans will entail improving access to and quality of social services, particularly in health and education, in order to close large regional differentials. Even further, poverty gains seem to be highly sensitive to external shocks. Therefore, the success of the country in increasing macroeconomic stability while promoting private sector investment is necessary for poverty reduction goals as well. This Country Strategy is oriented to support Belize in that direction.

² According to official estimates, damages caused by hurricanes Keith and Iris amounted to 40 percent of GDP in 2000 and 25 percent of GDP in 2001.

I. KEY DEVELOPMENT CHALLENGES

A. The Challenges

- 1.1 Belize faces the challenge of diversifying its economic base in order to reduce its vulnerability to exogenous shocks, combining the need for sound macroeconomic policies while fostering private sector-led growth. In addition, reducing the country's vulnerability to external shocks is important in order to sustain poverty reduction goals achieved during the decade and move forward in improving the quality of life of the people of Belize.
- 1.2 In this context, the challenges faced by Belize to achieve greater economic and social development are: (i) increasing macroeconomic stability; (ii) fostering private sector-led growth; (iii) promoting environmental sustainability; and (iv) promoting human development.³

1. Increasing Macroeconomic Stability

- 1.3 Since its independence in 1981, Belize achieved one of the most remarkable economic growth rates in the LAC region. Real GDP growth averaged 8 percent in 1986-93, fell to 2.1 percent in 1994-98, and increased again to 7.1 percent in 1999-2003. This outstanding economic performance was to a large extent the result of relatively good economic policies followed by successive administrations for most part of that period and of significant inflows of foreign savings. Sound fiscal policies increased public sector savings in the late 1980s and early 1990s (to an annual average of 9.4 percent of GDP during 1986-1993), which helped to expand public investments and increased the access of the private sector to domestic sources of credit. By reducing the perception of vulnerability in the economy, the relative fiscal stability achieved between the mid 1980s and early 1990s boosted private sector confidence and investments.
- 1.4 Economic growth was also stimulated by a steady inflow of foreign savings. The country's high dependency on foreign savings has been reflected in persistent current account deficits, which averaged 5.1 percent of GDP in 1981-2002 if unilateral transfers are included, and 13.1 percent of GDP if those transfers are excluded. For most of the 1980s and early 1990s, those deficits were mostly financed through private sector transfers and official development assistance, in the form of grants and concessional loans. More recently, in the face of declining official development assistance, the financing of those deficits changed in favor of privatization proceeds and foreign lending on commercial terms.
- 1.5 Widening public sector deficits started to emerge in the mid 1990s, provoking a gradual decline in domestic savings. The deterioration in the fiscal accounts

³ The identification of Belize's key development challenges is the result of an extensive dialogue and consultation process with the GoB, private sector, civil society and donor community representatives as well as the studies carried out for the preparation of this strategy, which are in part reflected in the Policy Dialogue Paper: "*Belize: Towards Sustainable Growth and Competitiveness*".

responded to exogenous shocks as well as policy choices. Declining terms of trade and a succession of natural disasters towards the end of the decade were partly responsible for such deterioration. In addition, in an effort to return to the high rates of economic growth of the late 1980s and early 1990s, the current administration since its inauguration in 1998 sought to stimulate strong economic growth through a combination of increased public investments, subsidized credit to the private sector and a reduction in the tax pressure, which strained public finances even further.

- 1.6 These policies achieved their intended growth objective, but the fiscal and external accounts of the country have deteriorated. In a context of expanding fiscal deficits, public sector savings contracted (3.2 percent of GDP during 1999-2003). Lower public sector savings and declining official development assistance (equivalent to an annual average of 2.6 percent of GDP in 1999-2003 vs. 5 percent of GDP in 1986-1994), obliged the authorities to rely more heavily on external indebtedness on market terms to support economic activities and finance the deficits in the fiscal and external accounts.

Table 1: GDP, Central Government-Public Sector Deficits and Public Debt

FY (April to March)	GDP (%)	Central Gov. Balance (% GDP)	Public Sector Balance (% of GDP)	Total Public Debt 1/ (% GDP)	Total Public External Debt 2/ (% of GDP)	Publicly Guaranteed External Debt 3/ (%of GDP)
1999/00	4.3	-10.2	-8.8	39.3	34.5	13.8
2000/01	12.1	-9.7	-9.6	51.1	45.1	20.5
2001/02	4.9	-9.8	-9.3	55.4	47.6	28.0
2002/03	4.3	-9.6	-9.4	54.5	52.7	33.5
2003/04e	5.5	-8.1	-6.7	66.5	60.1	25.6

Source: IMF

1/ Includes domestic and public external debt, but excludes the publicly guaranteed debt.

2/ Refers to the public external debt, excluding the external publicly guaranteed debt.

3/ Refers to the external publicly guaranteed debt of Belize Electric Ltd. (BEL), WASA (Belize Water and Sewerage Authority) and securitization operations of the Development Finance Corporation (DFC).

- 1.7 External debt indicators confirm this trend. Net lending from commercial banks and other private sector creditors increased sharply from an annual average of 0.2 percent of GDP in 1981-1998 to 12.5 percent of GDP in 1999-2003. The growth in foreign indebtedness has led to a significant increase in public debt service, which escalated from 4.5 percent of GDP in FY 1999/00 to 8.6 percent of GDP in FY 2003/04. This is also reflected in the current public debt service as a percentage of exports of goods and non-factor services and current government revenues. The former increased from 7.9 percent of GDP in FY 1999/00 to 15.3 percent in FY 2003/04; the latter grew from 21.9 percent of GDP in FY 1999/00 to 34 percent of GDP in FY 2003/04.
- 1.8 It is worth pointing out that in order to smooth the debt service profile of the country and reduce future pressures on the fiscal and external accounts steaming from debt payments, the authorities refinanced maturing amortization payments in 2002 and 2003 for US\$99.2 million and US\$38.7 million, respectively, and

established a sinking fund to cover forthcoming amortization payments. At the end of 2003, the fund had accumulated US\$57 million.⁴

- 1.9 The fiscal and external restrictions imposed by the current debt overhang, the vulnerability of the country to external shocks, the decline in official development assistance as well as the phasing out of preferential trade agreements in some traditional export markets are important challenges that should be taken into account in the formulation of an economic growth strategy for the future.
- 1.10 In this context, one of Belize's more pressing challenges is to tighten its public finances on a sustained basis in order to generate primary surpluses large enough to boost private sector confidence, investments and access to domestic sources of financing, open room for counter cyclical policies, and continue making priority public investments to meet its medium- and long-term growth and poverty reduction objectives. Given the GoB's strong political commitment to a fixed exchange rate vis-à-vis the U.S. dollar, the need for sustained fiscal discipline becomes even more important.
- 1.11 Progress in improving economic stability could be achieved by enhancing current revenue through reforming and improving tax policy and administration⁵; scaling down capital expenditure by financing only those priority projects included in the budget; and prioritizing public expenditures and improving their effectiveness, which requires first the realization of a comprehensive public expenditure review.

2. Fostering Private Sector-led Growth

- 1.12 The business environment in Belize is generally favorable for private sector activity. The GoB welcomes foreign investment and encourages projects which result in increased production, employment opportunities, foreign exchange earnings and savings, and the transfer of technology and skills. Belize has several investment incentives schemes designed to encourage private investment, including the Fiscal Incentives Act, International Business and Public Investment Companies Act, Export Processing Zone Act, and Commercial Free Zone Act. In general, Belize's laws and regulations on tax, labor, and customs do not significantly distort the mobilization and allocation of investment capital.
- 1.13 Notwithstanding this business-oriented environment, the prospective elimination of tax incentive schemes for export processing zones remains a major challenge. Over the years, many investors factor these incentives into their investment decisions. In Belize, without such incentives an important number of entrepreneurial activities become uncompetitive due to the lack of economies of

⁴ Furthermore, following the successful placement of two global bond issues in the international markets in 2002 and 2003, the authorities are in the process of launching the largest debt restructuring initiative in June 2004 by placing a US\$225 million 15-year global bond with the major objective of refinancing existing external public sector debt. The GoB is also committed to divest partially the DFC, liquidating approximately US\$70 million to be used solely for debt servicing over the next four years.

⁵ For further details, see: Jenkins Glenn P. and Chun-Yun Kuo; "Belize Fiscal Study".

scale as well as comparative high labor and input costs. Therefore, investment incentive schemes need to be reassessed to continue attracting foreign direct investment into the country.⁶

- 1.14 For many years Belize's major exports have enjoyed preferential access to the European Union (EU) and the United States. Currently, new trade initiatives and agreements are being negotiated, which are likely to lead to a substantial erosion of the benefits derived from privileged market access. In this context, the dynamism of the economy will depend on the ability of the private sector to increase productivity and exports as well as to take advantage of evolving trade agreements. This situation calls for meeting the challenges posed by the FTAA in 2005, which will replace the Caribbean Basin Initiative, the opportunities offered by the evolution of a CARICOM single market and Belize's relationship with CAFTA.⁷ Belize's trade strategy has to be redefined to take advantage of this new regional and international scenario.
- 1.15 The Belizean private sector made important strides in recent years to expand and diversify productive activities. The sugar industry, for example, made progress in improving its efficiency through better field disciplines, transportation and the development of a co-generation project. Non-traditional agriculture has started to diversify from traditional crops, particularly into papayas, pineapples and pepper production in spite of external market challenges. The aquaculture industry has experienced record growth in production and foreign exchange earnings over the past years (shrimp) and expanded into new activities (tilapia and caged fish farming).
- 1.16 Nevertheless, Belize's export trade is still dominated by traditional commodities (sugar, banana, citrus). Total exports amounted to US\$345 million in 2003, from which more than 80 percent corresponded to traditional exports and only 5 percent to non-traditional exports (e.g., marine products, papayas, pineapples, pepper sauce, black eye peas, etc.). Growth in the export sector has been attributed to investments by large farmers in traditional commodities and to a lesser extent to medium-size and small farmers, who produce non-traditional goods for domestic and regional markets.
- 1.17 The diversification of agricultural exports, a key issue to sustain economic growth in the future, calls for more efficient farming practices, higher quality standards, modern technology and equipment, and a focus on small and medium-size enterprises. Small farmers, in particular, need considerable assistance in terms of organizing themselves as producer's associations or cooperatives to access credit, agro-processing technology and market information. Small and medium-size farmers and fishermen comprise the bulk of the rural population and also the poor.

⁶ For further information, see: "Country Commercial Guide FY 2002," U.S. Department of Commerce.

⁷ For more information, see: Annex III: Regional Trade Agreements: Implications for Belize.

- 1.18 Inadequate infrastructure also contributes to high production costs and production inefficiencies, which limits the growth of agricultural exports and agro-industrial production by reducing their competitiveness. Over the past years, the GoB has completed the privatization of its main public utilities (i.e., electricity, water and telecommunications) in order to deal with this challenge. In the area of electricity, for example, the authorities have supported the construction of the second dam, the Upper Macal Storage Facility or Chalillo Dam, which will reduce Belize's dependency on electricity imports. At present, 50 percent of the country's electricity consumption is imported from Mexico and nearly all the rest is generated using imported fossil fuels. Moreover, co-generation from sugar bagasse is also being explored by the private sector. On the regulatory side, the GoB has successfully instituted the Public Utility Commission (PUC).
- 1.19 However, the high cost of utilities constitutes a key development issue in an economy like Belize. Efforts to reduce energy and telecommunications costs through improved regulation and supervision by the PUC are of critical importance. Furthermore, additional infrastructure constraints include the maintenance of the existing road network as well as the limiting amount of secondary and feeder roads in rural areas, which adversely affects production during the rainy season.
- 1.20 The financing of private sector initiatives remains another issue to be addressed in the context of improving the competitiveness of productive activities. Belize has a bank-based financial sector, comprised of a Central Bank and 58 financial institutions.⁸ The 5 commercial banks, the DFC and 15 credit unions dominate the supply of credit (Table 2). Non-bank credit suppliers (e.g., credit unions) are organized as non profit non-governmental organizations, except the government-owned Small Farmers and Business Bank.

Table 2: Indicators of Size and Structure of Belize's Financial System

	Loans (% of total)	Deposits (% of total)	Number of Institutions
Commercial Banks	64	97	5
Credit Unions	14	1	15
Building Societies	1	1	3
DFC	21	0	1
Government Saving Banks	0	1	1
Total in BZ \$ million	1,223	1,016	---

Source: GoB and Bear, Stearns & Co. Inc., Offering Memorandum, 2002

- 1.21 Due to the shallowness of domestic securities markets, long-term funding to the DFC and credit unions comes respectively from external borrowing and members'

⁸ The 58 financial institutions include: 5 commercial banks (including 2 foreign bank branches), 4 offshore banks, 1 government-owned development bank (the DFC), 15 credit unions, 3 building societies, 17 insurance companies, 1 government-owned savings bank, 1 government-owned small farmers and business bank, and 11 foreign exchange houses.

deposits and shares. A central issue for the Belizean financial system is related to credit rationing and the high costs of capital. Despite the country's bank-based financial system and a reasonable credit to GDP ratio (approximately 60 percent in 2003), commercial banks and the DFC direct credit to stable and relatively low risks activities in the agricultural sector (traditional exports), whereas small farmers and entrepreneurs have almost no access to private banking credit.

- 1.22 Finally, since the early 1990s, tourism surpassed sugar as the country's number one gross foreign exchange earner. In 2004 tourism will represent approximately 20 percent of GDP. Overnight tourism has continued to experience steady growth and is now complemented by the record expansion in cruise ship tourism. This record achievement has seen new international investors in the cruise ship industry (i.e., Royal Caribbean assuming ownership of Belize's first tourist village and most recently the launching of the Carnival new port and tourism village US\$50 million mega project).
- 1.23 Under these promising circumstances, the public and private sectors face the challenge of promoting and managing tourism investment in order to offer opportunities for both local and foreign investment, generate employment and increase revenues while ensuring environmental and social sustainability. The continued expansion of the tourism industry will require a comprehensive strategy for the sector that encompasses the development of new infrastructure, additional tourism products, training and marketing as well as the establishment of financing mechanisms to ensure the quality of services. Moreover, tourism investment needs to be constantly assessed in light of Belize's environmental fragility as well as its spillover effects on the society. A major challenge to this sector is posed by the remarkable growth of cruise ship passengers, which according to preliminary figures from the Belize Tourism Board reached 600,000 visitors in 2003 and possibly 800,000 in 2004.

Table 3: Key Tourism Indicators 1998-2002

Visitor Arrivals	1998	1999	2000	2001	2002
United States	95,820	92,694	106,292	107,706	104,302
Canada	9,100	8,430	9,492	10,931	9,562
United Kingdom	7,124	7,711	9,313	10,426	8,480
Other European	15,809	18,491	20,423	13,930	15,951
Other Countries	37,275	32,419	29,346	34,423	40,657
Total Stay-over Visitors	165,128	159,744	174,866	177,416	178,952
Cruise Ship Passengers	14,183	29,011	49,411	40,898	271,737
Total Arrivals	179,311	188,755	224,277	218,314	450,689
Number of Cruise Ships	25	52	70	48	200
Hotel Occupancy Rates (%)	29.9	31.4	41.7	44.8	40.1
Length of Stay	7.1	7.1	7.6	7.6	7.6

Source: Central Statistical Office and CBB

3. Promoting Environmental Sustainability and Growth

- 1.24 Belize's natural resources are both a source of livelihood for town and village residents throughout the country and the foundation upon which future growth in key economic sectors is dependent. Most tourists visit Belize for its unique environmental assets including its protected areas and the barrier reef. Much of the country's appeal relies on its eco-friendly image. Shrimp production is also directly dependent on the quality of Belize's coastal waters. Shrimp represents approximately 75 percent of aquaculture sector's export values. To be sustainable, growth in these sectors must be accompanied by policies and an overall investment climate that are conducive to preserving the natural resource base and preventing losses in environmental quality that could affect competitiveness.

Box 1: Belize Natural Environment

Within a total land area of 22,960 square kilometers and a maritime territory of 46,420 square kilometers, Belize has a wealth of natural resources including:

- *A variety of tropical broadleaf, pine forests, mangroves and other tropical vegetation communities and associated wildlife.*
- *The second most extensive barrier reef system in the world.*
- *Productive fisheries, particularly reef-dependent fisheries (lobster and conch).*
- *A system of highly productive coastal wetlands and seagrass beds that support both fisheries and aquaculture activities.*

- 1.25 Pressure on forests, fisheries resources and the barrier reef has been increasing as tourism and exports increased in recent years. There are growing signs of negative externalities and environmental degradation such as congestion, improperly disposed solid waste and water pollution at popular visitor sites and major cities. These trends, should they continue, could affect Belize's capacity to accommodate the growth that is projected for cruise ship tourism and thereby jeopardizing its position in this highly competitive market. Combined with the deforestation due to unsustainable agriculture and forestry practices, these trends could also affect access to other niche markets such as ecotourism.
- 1.26 In addition, Belize possesses one of the most comprehensive legal and regulatory environmental frameworks in the Central American region. A major challenge continues to be the effective enforcement of these laws and regulations and the provision of incentives for compliance with environmentally sound practices. Improvements in this area require close cooperation with the private sector and local organizations to overcome the country's limited enforcement capacity.
- 1.27 The creation of an effective waste management system, another important issue, will require the development of specific standards and a set of economic and financial incentives to foster waste reduction, recycling, proper treatment and effective disposal. Responsibility for both waste collection and disposal has resided with local governments. While, the central government has established a Solid Waste Management Authority, which has yet to be made operational.

- 1.28 Approximately 50 percent of the Belize population lives in urban centers and receives regular solid waste collection service. Nevertheless, the waste collected in all cities and towns around the country, approximately 45,000 tons/year, is currently discharged in open sites. These facilities lack technical and environmental controls and operate without adequate equipment or supervision. On the offshore islands, the inadequacy of the waste disposal practices is especially worrisome due to the environmental vulnerability of the islands, their proximity to coral reefs and their importance for tourism activities.
- 1.29 Improvements in the country's emergency preparedness institutions - the National Emergency Management Organization (NEMO) - requires continuous efforts to sustain the GoB readiness to effectively respond to a disaster when it occurs. Reconstruction needs after the disasters also challenged Belize's financing capacity. Given the country's exposure to natural catastrophes, macroeconomic management policy in Belize needs to include financial mechanisms for better anticipating and managing this type of risks, enabling a more efficient recovery and rehabilitation.
- 1.30 Equally important, preparedness need to be matched by improvements in the country's capacity to reduce probable losses and damages from disasters. Belize's coastal zone and location along the hurricane belt makes it vulnerable to flooding, storm surges, high winds, and related physical processes. Improved land use planning, particularly at the town and village levels, will be necessary to reduce risk to more acceptable levels. Decisions about where to locate social and productive infrastructure as well as the applicable building standards will have to be carefully evaluated so as to better safeguard the country's growing assets.

4. Promoting Human Development

- 1.31 Belize has a low number of households living under the poverty line, but a relatively high number of them are indigent. The last consumption-based measurement of poverty carried out in 2002 showed that 24.5 percent of households (or 33 percent of individuals) were poor and 7.5 percent were indigent (10 percent of individuals). The income gap was low, at 11 percent. That is, households needed to increase their per capita consumption by 11 percent on average to reach the poverty line.⁹
- 1.32 An important dimension of poverty in Belize is that it is highly sensitive to covariate shocks. As mentioned previously, the economy is vulnerable to external shocks. Its exports are dependent on few agricultural products. The poor work mainly in the agricultural sector producing traded goods. Therefore, the country's terms of trade volatility is directly correlated to the levels of poverty.
- 1.33 For example, the reduction of sugar exports had a direct effect on poverty rates in the Corozal district. Poverty and indigence rates in Corozal went from 15 percent and 30 percent in 1993 and 17 percent and 31 percent in 1999, respectively. On

⁹ Marcano, Luis; "Regional Growth Disparities and Poverty in Belize."

- the other hand, the increase in citrus exports brought down the poverty rates in Stann Creek. Poverty and indigence dropped sharply over the decade, from 42 percent and 31 percent to 18 percent and 13 percent. These are good news on an economic upturn but shows that poverty gains are contingent on sustained economic growth, to international markets access and higher export prices.
- 1.34 Another characteristic of poverty in Belize is that extreme poverty is geographically concentrated. The combination of relatively low poverty levels and a high level of indigence are explained by large regional differences such as the high and extreme poverty in the south, specifically in the region of Toledo. The Toledo and Cayo districts, where 29 percent of the population lives, concentrate two-thirds of the country's indigents. Even worse, the Toledo district has less than 9 percent of the total population, but more than a third (36 percent) of all indigent households live there. Additionally, extreme poverty is directly related to ethnicity; 57 percent of Toledo's population is Mayan, compared to an average of 4 percent for other districts.
- 1.35 To forecast the probability of Belize reaching the MDGs indicators of poverty, Marcano projects the historical trend of GDP per capita and poverty rates, holding exogenous shocks constant. If the average GDP per capita between 1995 and 2002 (1.72 percent annual) is maintained during the upcoming years, the poverty target will be reached but the extreme poverty target will not be reached. The reduction of extreme poverty by half seems difficult to attain by economic growth alone. In other words, if the historical economic trend is maintained, Belize will require 26 years to halve the number of people that live in extreme poverty. To reach the MDG's goal for extreme poverty the country would require an increase in the average annual growth rate of 3.5 percent, or a decrease in inequality of 12 percent.
- 1.36 In the case of health, reaching the MDG's goals for child mortality, maternal health and the spread of HIV/AIDS and other major diseases will depend on the country's success in increasing the efficiency of the sector. Belize's social expenditures in education and health are relatively high (6 percent and 7 percent of GDP, respectively). However, health indicators in the southern districts vary greatly from average rates. Child mortality under 5 years old is 49.5 per thousands live births for the district of Toledo and 31 per thousand for the national average. Another particular concern in the country is the HIV/AIDS epidemic. From 1996 to 1999, reported cases increased by 63 percent, with about 40 percent of new cases identified in 1999.¹⁰ This is a major concern of the international community, which is actively supporting Belize in fighting the epidemic.¹¹

¹⁰ Pan-American Health Organization (PAHO), "Country Health Profile: Belize".

¹¹ For example, in this year alone the Organization of Petroleum Exporting Countries and the United Nations Population Fund launched a US\$750,000 program: "HIV/AIDS Prevention among Youth in Difficult Circumstances in Belize." In addition, the World Bank (WB) approved in March 2004 a US\$9 million grant for Caribbean HIV/AIDS prevention and treatment, which will assist Belize and other members of CARICOM to coordinate efforts and strengthen the impact of their national HIV/AIDS programs.

- 1.37 The Belizean government decided to implement a comprehensive health sector reform to achieve an equitable and sustainable system of sector financing by setting up a National Health Insurance (NHI) Fund. The creation of the NHI would be accompanied by policy measures aimed toward strengthening the public health and regulatory functions of the Ministry of Health and the constitution of statutory authorities that would take control of the provision of services on an autonomous manner.
- 1.38 The NHI Fund would be responsible for the launch of the NHI with funding to be provided by a payroll tax of 4 or 5 percent. However, the declining macroeconomic situation faced by the country at the onset of the NHI implementation led the government to postpone the collection of the payroll tax and furthermore to minimize the scope of the insurance scheme. The country decided to move ahead with the implementation of a pilot in the south side of Belize to test the organization and management of purchasing and provision of primary care services through a mix of public and private providers.
- 1.39 Based on the findings of the pilot the GoB has decided to carry out a countrywide rollout (expansion) of the NHI to provide health service coverage for the four health regions of the country. The authorities face several challenges arising from the planned rollout: (i) financial sustainability which will depend mainly on the level of public spending and the macroeconomic situation; and (ii) willingness of the Ministry of Health to divest its own resources to finance the NHI Fund in its function as purchaser of primary care services.¹²
- 1.40 Regarding the labor markets, the challenge of export diversification entails an adequate supply of labor to meet changing demands. The size of the labor force in the country is approximately 100,000 workers and has grown at an annual rate of 6 percent during the 1990s, almost twice the population growth rate. This implies a rise in the participation rate of more than 10 percent, explained mainly by female entrants in the labor force. The sectors that generated the largest number of jobs were tourism and agriculture. Tourism, including wholesale and retail commerce and restaurants, carried more than 44 percent of new jobs; while agriculture absorbed 41 percent of new jobs created during the decade.
- 1.41 The wage rate is relatively high in regional terms. The hourly minimum wage is BZ\$2.25 (US\$1.13), except in agriculture and export industries where it is BZ\$2.00. Minimum wage legislation does not cover workers paid on a piecework basis. The relative wage differential with neighboring countries can explain the inflow of migrant workers into the country. Labor regulations in the country aim to compensate for this relative high level of wage rates of Belize in comparison to its neighboring countries. The cost of dismissing workers is one of the lowest in the region. The expected discounted cost of dismissing a worker is half the

¹² The GoB has recently implemented the first stage of Social Security reform with 1 percent increase in premiums and held a meeting with the Caribbean Development Bank (CDB) and IDB to synchronize the way forward in the reform process.

- Caribbean average¹³ and payroll costs are around 7 percent. In conclusion, even though the wage rate is comparatively high in comparison to other Central American countries, labor costs and other incentives to the private sector seem to be relatively beneficial to private investment and not a binding constraint.
- 1.42 The stock of skilled workers did not increase at the same pace as the labor force. Two thirds of new entrants in the labor force during the nineties had primary education or less. The stock of unskilled workers in the economy is not a direct consequence of Belize's educational system but also of the large inflow of migrant workers with low levels of education. However, even though the diversification of Belize's export base may require a larger number of skilled workers in the economy, the present stock of human capital seems to not be a binding constraint in the short run for private sector-led growth. Additionally, Belize allows foreign investors to bring into the country skilled staff, if the companies will set up appropriate training programs for nationals.¹⁴ This illustrates that even though there is a lack of appropriate skilled human capital, the country has implemented policies to ameliorate the effect on industries.
- 1.43 Educational attainment is relatively high in Belize. Net enrollment rates for primary and secondary education are high at 85 percent and 34 percent. According to the World Bank (WB), the secondary enrollment rate could be higher if access limitations were addressed.¹⁵ This relatively good performance of the educational system hides regional disparities. Only 8 percent of poor head of households have secondary education in Toledo, compared to 26 percent in the Belize district. The multilingual characteristic of the population also limits the effectiveness of education. In conclusion, while the educational systems seems to provide an adequate supply of human capital, raising competitiveness of the country will require advancing in closing regional gaps and in providing expanded access for secondary education.
- 1.44 The social sector in general, but poverty in particular has traditionally been a priority area for the international community as well as the IDB. Currently, the Bank is engaged in poverty reduction efforts, providing assistance to the GoB to update and strengthen the National Poverty Elimination Strategy and Action Plan 2003-2008 (NPESAP), a US\$300,000 grant from the Japan Special Fund. The objective of this TC operation is to improve monitoring and evaluation mechanisms in the country as well as to set up specific targets for Belize based on the MDGs. In addition, the IDB-Japan Program would also provide additional resources in 2004 (US\$150,000) for poverty-related technical assistance.
- 1.45 Social and poverty reduction related initiatives are the focus of many other multilateral and bilateral organizations (see, Chapter II: Section D). Social infrastructure is being provided by, among others, the World Bank's Social

¹³ The cost in multiples of monthly wages equals one.

¹⁴ U.S. Department of Labor, "Country Commercial Guide: Belize".

¹⁵ The WB strategy for Belize includes an operation for the education sector.

Investment Fund, DFID's Provision of Basic Needs and the Caribbean Development Bank's Basic Needs Trust Fund. The Bank will continue collaboration with these organizations, which are taking the leadership in social and poverty related efforts, just as the Bank is taking the leadership in the competitiveness and private sector development effort.

B. Macroeconomic Prospects

- 1.46 Belize has growth potential and should be able to diversify further its economic base. The country is well endowed in terms of natural resources and is close to the United States and Mexican markets. Its coasts, forests, water resources and historical heritage constitute an excellent foundation for the development of the agricultural, aquaculture and tourism sectors. Since the current administration took office in 1998, it has sought to integrate Belize further into the world economy and to expand its trade and investment opportunities through new trade and integration agreements. The country has negotiated bilateral trade agreements with Mexico, Spain, Cuba, Costa Rica, Guatemala, Nicaragua, El Salvador, and Honduras. It enjoys preferential access to the markets of the EU under the Cotonou Partnership agreement and to the United States under the successor of the Caribbean Basin Initiative. It is also seeking membership in the FTAA.
- 1.47 However, Belize faces several external risks. The country will face the gradual phasing out of existing preferential trade agreements with its major export partners: the EU and the United States. This process started in the early 1990s and has been reflected in a systematic decline in the prices of bananas and sugar, two major traditional export products. According to the WB,¹⁶ Belize's GDP could fall between 1 and 2 percent per year once these preferential agreements expire. Similarly the IMF has estimated that export revenues could drop by 10-12 percent as a result of export price erosion following a partial reduction in preferential market access in 2006.¹⁷ This would have undesirable consequences on employment and poverty.
- 1.48 The economy is also vulnerable to natural disasters, such as flooding and hurricanes, and to adverse changes in international financial and capital market conditions, such as interest rate increases and reduced access to emerging market credit. The current levels of fiscal deficit, external debt and debt service could exacerbate these vulnerabilities.
- 1.49 In the face of high fiscal deficits, the GoB has decided to cut the deficit of the Central Government from around 8 percent of GDP in FY 2003/04 to below 3 percent of GDP in FY 2004/05 through a combination of revenue and expenditure measures. The authorities have also stated, in the context of the 2003 IMF's Article IV Consultation, their willingness to adopt, if necessary, additional

¹⁶ World Bank, "Country Assistance Strategy for Belize 2000."

¹⁷ IMF, "Belize: Staff Report for the 2003 Article IV Consultation."

revenue and expenditure measures beyond those currently envisaged for the current fiscal year.¹⁸

- 1.50 The macroeconomic projections supporting the CSBL, calculated in calendar year basis, assume a gradual reduction in the preferential prices of major commodities and a significant improvement in the GoB's savings and primary balance from 2004 to 2007. As shown in Table 4, the primary balance of the non-financial public sector would improve from a deficit equivalent to 6.1 percent of GDP in 2003 to a deficit of 0.6 percent in 2004. It is assumed that in 2005 there will be a surplus of 1.6 percent of GDP and of 2.5 percent of GDP in 2006 and 2007. The main factors responsible for the improvement in the fiscal stance would be: (i) an increase in current revenues of 2.3 percent of GDP over the period 2004-07 mainly as a result of the tax measures recently announced by the GoB and the overall tax reform to be adopted in FY 2005/06; (ii) a gradual reduction in current expenditures, including the wage bill, transfers and expenditures on goods and services; and (iii) a significant reduction in capital expenditures (2004).
- 1.51 Economic growth in 2004 and 2005 is projected to come from traditional agriculture, aquaculture and tourism. Banana, sugar and citrus productions are likely to benefit from the revitalization that has taken place following the hurricanes of 2000 and 2001. The shrimp and farmed fish industry is expected to expand as a result of the control of the Taura virus and the opening in 2003 of the EU market, where prices are significantly higher than in the US market. In the service sector, tourism will expand from the recovery of the American and European economies, improved air connections to the United States, which will mainly benefit stay-over tourism, and the construction of a new cruise ship facility, which will support the phenomenal growth recorded in recent years by this type of tourism. It is expected that economic growth will reach about 3.6 percent per year for the 2004-2007 period.

Table 4: Selected Economic Indicators in Calendar Year Figures
(In percentages of GDP, unless specified)

Indicators	2003e	2004p	2005p	2006p	2007p
Real GDP Growth (%)	5.5	3.6	3.6	3.6	3.6
Inflation Rate (CPI, %)	2.5	2.5	1.0	1.0	1.0
Current Account Balance	-15.6	-8.4	-5.2	-4.9	-4.5
CG Total Revenue (plus grants)	21.0	21.8	22.6	23.2	23.8
CG Total Expenditure	32.6	25.0	26.5	26.2	26.3
<i>Of which Capital Expenditures</i>	11.8	6.6	8.0	8.0	8.1
CG Deficit	-11.6	-3.2	-3.9	-3.1	-2.5
Rest of the Public Sector	-0.5	-2.9	-0.4	-0.2	-0.1
Overall Fiscal Balance	-12.1	-6.1	-4.3	-2.9	-2.6
NFPS Primary Balance	-6.1	-0.6	1.6	2.5	2.5

Source: IMF estimates (e) and IDB projections (p)
CG: Central Government. NFPS: Non-Financial Public Sector

¹⁸ IMF, "Belize: Staff Report for the 2003 Article IV Consultation," page 10.

- 1.52 Under these fiscal and growth projections, the external current account balance is projected to improve from a deficit of 15.6 percent of GDP in 2003 to 4.5 percent in 2007. The improvement in the current account balance would support a gradual increase in foreign exchange reserves from an equivalent of 1.3 months of imports of goods and non-factor services in 2003 to 1.7 months in 2007. Meanwhile the ratios of current public debt service to current government revenues and to exports of goods and non-factor services are projected to improve, declining gradually from 34 percent and 15.3 percent in 2003 to 27.3 percent and 10.8 percent in 2007, respectively.¹⁹
- 1.53 Assuming that the real GDP growth, inflation and the primary balance during the 2004-2007 period behave as depicted in Table 4, and that the average annual real interest rate on the public debt during the same period is 6.1 percent, the public sector debt stock will decline gradually from 66.5 percent of GDP in 2003 to 63.6 percent of GDP in 2007 (excluding the publicly guaranteed debt). If growth were to increase to an annual rate of 4.6 percent as of 2005, following a strong performance of tourism and aquaculture export receipts that more than offset the decline in those of sugar and bananas, the public sector debt stock will decline even further to 61.5 percent of GDP by 2007.²⁰
- 1.54 Finally, the gross financing needs of Belize during the 2004-2007 period will approximately amount to US\$90 million per year, which should be financed with internal and external borrowing. The gross financing needs are defined as public sector deficit, together with the amortization of medium- and long-term public sector debt, plus short-term debt at the end of previous period.

C. The Government of Belize Medium Term Development Strategy

- 1.55 The GoB medium term development strategy²¹ aims at consolidating fiscal accounts and reducing foreign indebtedness. As mentioned previously, the authorities are committed to maintain the fiscal deficit of the Central Government below 3 percent of GDP in FY 2004/05 and continue consolidating public accounts in subsequent years. To achieve this objective, the GoB is taking a number of measures to rationalize public spending, restrain capital expenditure and increase tax collection. A major challenge for the current administration will be to avoid further increases in the public sector wage bill, limit capital outlays to budget-financed investment projects and raise taxes while improving the business climate.

¹⁹ The debt service to government current revenue ratio assumes that the GoB does not have to service the publicly guaranteed debt.

²⁰ Annex IV, presents a Public Sector Debt Sensitivity Analysis (2004-2007) with three scenarios (i.e., low, conservative and high) which combine different GDP growth rates with the respective primary balances that makes the public debt stock stable at the 2003 level.

²¹ Based on Government of Belize, "Medium Term Economic Strategy 2003-2005" and "Budget Speech for Fiscal Year 2004/2005".

- 1.56 The authorities undertook a virtual moratorium on new commercial borrowing and efforts are underway to refinance short-term commercial debt to lengthen the term and reduce the cost of debt servicing. The GoB's debt strategy is concentrating on sourcing lower cost funds from more traditional sources and new bilateral lending. Furthermore, the authorities demonstrated a commitment to enhance public sector debt management by establishing a Debt Management Board, which has been supported with IDB technical assistance
- 1.57 In the area of international trade, the formulation of appropriate and well informed policy positions to guide Belize's participation in the various trade negotiations (e.g., CAFTA, FTAA) will continue to be of strategic importance for the current administration, since they will impact major export commodities as well as the emerging services sector. Trade policy, investment promotion and productivity-competitiveness of Belizean exports in the global markets will be priority areas for the GoB.
- 1.58 The GoB intends to attract investments in sectors that have employment and foreign exchange potential such as in the tourism industry. It is the authorities' intention to grant export processing zone status to those cruise ship and other tourism entities that make significant long-term investments. Of particular interest, is to develop the Southside of Belize City to build a new cruise ship terminal, and to increase tourism in the southern districts of Stann Creek and Toledo.
- 1.59 Regarding social issues, the GoB is aiming to achieve sustained and balanced growth without sacrificing investment in the social sector and in poverty reduction programs. Investments in education and health are seen as critical to long-term growth and development. The focus will be on improving quality and equity of access to social services. The gains made in the social and environment health area, in malaria eradication, for example, will be protected and the focus on HIV/AIDS strengthened in order to contain the spread of the disease.
- 1.60 Poverty reduction is a high priority for the GoB. The GoB is approaching poverty reduction on a multi sector basis by promoting small-scale agricultural development and the implementation of rural community-based projects. In the urban areas, attention will continue to be paid to urban renewal. Additionally, in both urban and rural areas, access to skills training for employment and entrepreneurship, support for institutions providing credit and advisory services to small, medium and micro-enterprises will be key elements of the GoB's poverty reduction strategy.
- 1.61 Given the high impact and heavy burden of recent natural disasters on the economy of Belize and the population as a whole, disaster preparedness, through the activities of NEMO, will continue to be of critical importance. Moreover, the GoB will continue to strengthen capacity and performance in land use planning, environmental management and environmental protection.

II. ASSESSMENT OF PAST STRATEGY, PORTFOLIO AND COORDINATION ISSUES

A. The Former Strategy

- 2.1 The main objective of the 1999-2003 Country Strategy was to assist Belize in promoting adjustments to its productive structure in order to both increase national income and to compensate for the loss of employment likely to follow the phase out of preferential trade agreements. Identified sources of growth, employment and foreign exchange were tourism and agriculture/agribusiness sectors. Accordingly, the following strategic areas were initially established: Enabling Environment, Agriculture and Agribusiness, Tourism and Environment, the Social Sector and Regional Development.

Table 5: Operations in Support of the 1999-2003 Country Strategy

Strategic Areas	Project Name	Amount (US\$ million)	Portfolio (%)
Enabling Environment	Institutional Strengthening for Trade Negotiations (ATN/CT-7420-BL)	0.09	
	Support for Central Statistical Office (ATN/SC-7949-BL)	0.14	
	Capacity Building for Trade & Investment Promotion (ATN/MT-8047-BL)	0.49	
	Subtotal	0.72	1
Agriculture and Agribusiness	Modernization of Agricultural Health Services (1189/OC-BL)	3.6	
	Land Management Program (1322/OC-BL)	7.0	
	Subtotal	10.6	14
Tourism and Environment	Tourism Development (1250/OC-BL)	11.00	
	Training in Eco-Tourism (ATN/MH-7092-BL)	0.70	
	Support for Toledo Eco-Tourism Projects (ATN/SU-7608-BL)	0.15	
	MPRFR Rehabilitation & Management (ATN/NC-7458-BL)	0.15	
	Training on Tourism Industry in the Bahamas (ATN/SF-7810-BL)	0.015	
	Archeological Tourism (ATN/SF-7992-BL + ATN/SF-8242-BL)	0.175	
	Subtotal	12.19	16
Social Sector	Health Sector Reform Project (1271/OC-BL)	9.80	
	Support for Health Services Acquisition (ATN/MT-6805-BL)	0.77	
	Preservation of Garifuna Culture (ATN/DC-8053-BL)	0.14	
	Subtotal	10.71	14
Regional Development	Covered by projects in execution	---	
	Subtotal	---	---
Natural Disaster Management	Hurricane Rehabilitation & Disaster Preparedness (1211/OC-BL)	21.3	
	ERF-Hurricane Keith (1275/OC-BL)	20.0	
	Subtotal	41.3	55
	Grand Total	75.52	100.0

Source: IDB Country Office and RE2/Country Division 3

- 2.2 However, the implementation of the Country Strategy was severely affected by the occurrence of natural disasters in 2000 and 2001. As a result more than half of the total value of IDB assistance was directed to Natural Disaster Management, an area not originally contemplated in the Country Strategy. Table 5 shows that Bank's interventions (i.e., loans, TC and MIF operations) were distributed as follows as follows: Natural Disaster Management (55 percent of total approved), Tourism and Environment (16 percent), Agriculture and Agribusiness (14 percent), the Social Sector (14 percent) and Enabling Environment (1 percent). The following review of the 1999-2003 Country Strategy shows that in spite of the incidence of natural disasters, positive results were achieved in all strategic areas.
- 2.3 In the strategic area of **Natural Disaster Management**, a US\$20 million Emergency Reconstruction Facility (ERF) loan was approved following Hurricane Keith in October 2000. This operation came just one year after the approval of a US\$21.3 million loan for disaster preparedness. These interventions have not only facilitated Belize's economic recovery in 2002 and 2003 through infrastructure reconstruction, but also created a better capacity in the country to respond to natural hazards through the construction of regional shelters, the retrofitting of existing ones and the institutional strengthening of NEMO.
- 2.4 Through NEMO, the authorities are better equipped to educate Belizeans on storm planning and preparation and can effectively coordinate national recovery efforts in such an event. NEMO's education programs have resulted in increased insurance and protection against the damages caused by natural catastrophes, including agriculture and aquaculture. Belize's building codes have as well been tightened, effectively safeguarding against massive structural devastation.
- 2.5 Interventions in the **Tourism and Environment** strategic area include the Tourism Development loan, Training in Eco-Tourism (TC/MIF), Support for Toledo Eco-Tourism, Training on Tourism Industry in the Bahamas and Archeological Tourism TC projects. These operations were all directed at improving tourism infrastructure as well as increasing the institutional capacity of agencies and businesses involved in the promotion and delivery of tourism-related services. During the same period, an environmental and conservation TC project aimed at controlling the Pine Bark Beetle in the Mountain Pine Ridge Forest Reserve was approved. Operations in the tourism sector have been pivotal in making Belize a more attractive tourist destination. Apart from helping to restore Mayan sites, provide training for the hospitality industry and improve basic infrastructure (such as access roads and visitors' centers), these interventions have contributing to increase the number of visitors to archaeological sites from 72,000 in 1999 to 150,000 to date.
- 2.6 In the strategic area of **Agriculture and Agribusiness**, the focus was on the Land Management Program and the Modernization of the Agricultural Health Services (BAHA). The first operation continued land tenure clarification (started under the Loan TC Land Administration, 1997) and improving the efficiency of land

- administration services to the private sector and the poor, enhancing land security and effective land markets. The latter operation was pivotal in expanding market access for Belize's exports through phytosanitary certifications in the face of trade liberalization and increasing global competition. For example, thanks to BAHA certification program the Belizean shrimp and farmed fish industry will benefit from exporting to the EU market (2003), where prices are significantly higher than in the US market. Further, its effective surveillance program enabled Belize to be certified free from med-fly, avian influenza, mad cow disease, classical swine fever, citrus canker and citrus leprosis.
- 2.7 In the **Social Sector**, a collaborative initiative in 2000 between the Bank, the CDB, the EU and the GoB resulted in the Health Sector Reform project. Its overall objective is to increase the efficiency, equity and quality of the health care system. Additionally, it seeks to increase the participation of the private sector in the delivery of quality health care services in a financially sustainable manner. However, the impact of the Bank's participation in the health sector has been affected by delays in the implementation of the NHI, situation which is going to be resolved with the roll out of the south side pilot in 2004 and 2005 and policy decisions recently made by the government to further clarify the regulatory role of the Ministry of Health.
- 2.8 New investments in the area of **Enabling Environment** were modest and include a TC for Institutional Strengthening for Trade Negotiations and a TC/MIF program for Capacity Building for Trade and Investment Promotion (BELTRAIDE). Both projects were approved towards the end of the 1999-2003 Country Strategy period. Operations like the Land Management Program (technically categorized in the agriculture sector) have a strong impact in the enabling environment by stimulating investment in land.
- 2.9 Attempts were made by the Bank to develop a program to improve the Administration of Justice (BL-0019), a critical project for this strategic area. However, the project lost its initial support from the Belizean authorities. Further, other proposed programs in the 1999-2003 Country Strategy in areas such as trade, financial system and institutional reforms did not materialized due to changes in the government's priorities precipitated by natural disasters that affected Belize during the period under consideration.
- 2.10 Operations in the **Regional Development** strategic area started during 1993-1998 period, reflected by the approval of the Environmental and Social Technical Assistance Project (1997) and the Southern Highway Rehabilitation Project (1998). These projects continued well into the 1999-2003 Country Strategy, being instrumental for the integration of southern Belize with the rest of the country by facilitating access to markets for farmers through the rehabilitation of feeder roads and improving access to social services for twenty-eight rural villages in Southern Belize.

B. Portfolio Execution and Performance

2.11 As shown in Table 6, the IDB portfolio in execution consists of six investment loans with Bank financing of US\$68.7 million, three TC/MIF operations (US\$1.96 million) and eight non-reimbursable TC operations (US\$1.06 million). At present, US\$40.9 million, or 59.5 percent of the investment loans, 42.9 percent of the TC/MIF operations and 52 percent of the TC projects have been disbursed. Three of the six loans are in advanced stages of execution, namely the Southern Highway, the Modernization of Agricultural Health Services and the Tourism Development, and will be fully disbursed within a year.

Table 6: Size and Composition of the IDB Portfolio

(As of December 31, 2003)

Operations in Execution	No. of Ops.	Approved Amount (US\$ million)	Amount Disbursed (US\$ million)	Disbursed %	Balance Available (US\$ million) (1)	Balance %
Loans	6	68.73	40.90	59.5	21.20	31.0
MIF	3	1.96	0.84	42.9	1.12	57.1
TC	8	1.06	0.55	52.0	0.51	48.0
Total	17	71.75	42.29	51.46	22.83	45.36

Source: IDB Country Office. (1) Does not include commitments

2.12 IDB lending to Belize began in 1997. The six investment loans in the portfolio were approved over the period 1998 to 2001. Completed projects in the portfolio have been executed over periods between five and six years. Over the past years, the Bank's portfolio has been associated with complementary financing from other donors on concessional terms. Specifically, the ICDF of Taiwan has provided US\$13.0 million; the CDB US\$15.9 million; the WB US\$2.8 million and the EU US\$1.6 million. At present, US\$10 million of ICDF resources and US\$4.9 million of CDB resources have been already disbursed as well as 100 percent of the WB and EU. The undisbursed amount of parallel financing is US\$14.0 million or 20.4 percent of the present portfolio. This reflects the Bank's operational strategy in Belize, to secure cofinancing to both minimize the increase in the country's debt burden and to contribute to local counterpart resources.

Table 7: Parallel Financing for Investment Loans

(In US\$ million)

Donor Institution	No. of Projects	Cofinancing	Disbursement	Balance
ICDF	2	13.0	10.0	3
CDB	3	15.9	4.9	11
World Bank	1	2.8	2.8	---
European Union	1	1.6	1.6	---
Total	---	33.3	19.3	14.0

Source: IDB Country Office

2.13 Regarding the sources of counterpart resources, in the Tourism Development project, the ICDF of Taiwan provided 100 percent of the counterpart contribution while the CDB provided 25.8 percent of the financing for the Hurricane

Preparedness, 26 percent for the Health Sector Reform and 6 percent for the Southern Highway. The GoB provided all of the counterpart contribution for the Modernization of Agricultural Health Services and the Land Management projects.

Table 8: Loans in Execution: Implementation and Development Objectives

CS Strategic Objective	Project Name	Implementation Progress	Achievement of Dev. Objectives
Agriculture and Agribusiness	Land Management Program (1322/OC-BL)	Satisfactory	Probable
	Modernization of Agricultural Health Services (1189/OC-BL)	Satisfactory	Highly Probable
Tourism and Environment	Tourism Development Project (1250/OC-BL)	Highly Satisfactory	Highly Probable
Social Sectors	Health Reform Project (1271/OC-BL)	Unsatisfactory	Probable
Regional Development	Southern Highway Project (1081/OC-BL)	Satisfactory	Highly Probable
Natural Disasters	Hurricane Preparedness Project (1211/OC-BL)	Satisfactory	Probable

Source: IDB Country Office

- 2.14 As shown in Table 8, overall portfolio performance during 1999-2003 has been satisfactory, with one unsatisfactory project observed. Of the six projects in the portfolio over the past year, five were classified as having satisfactory or highly satisfactory implementation progress and were rated as probable or highly probable in the achievement of their development objectives. Only one operation, the Health Sector Reform project (1271/OC-BL) was classified with a Low Probability of meeting development objectives and unsatisfactory execution. This classification was mainly due to the uncertainty regarding the financing mechanism for the National Health Insurance. The project classification has recently changed to a probable level of achieving its original development objectives, given recent progress in the implementation and financing of the scheme. However, the project continues to be classified as unsatisfactory in terms of its level of execution.
- 2.15 Training seminars conducted by the Bank over the past two years, particularly in the areas of project management, procurement and disbursement, have led to improvements in project execution units as well as a general awareness of Bank procedures. As a result, currently there are no execution issues related to procurement.
- 2.16 The Private Sector Department (PRI) had no operations in Belize. In the case of the Inter-American Development Corporation (IIC), one operation was approved in March 2002, and has already been fully disbursed. This operation aimed at developing tilapia exports and thus diversifying Belize's export base.

C. Lessons Learned

- 2.17 Belize has benefited from the Bank's role in stimulating cofinancing arrangements with other bilateral and multilateral development agencies. The Bank's efforts in securing concessional resources have reduced counterpart requirements, an aspect of relevance under current fiscal restrictions and the indebtedness situation of the country. Efforts should continue to identify additional cofinancing, not only to meet counterpart requirements for future operations but especially as one of the best avenues to coordinate actions and avoid overlapping of activities. Furthermore, cofinancing arrangements provides opportunities for a new dialogue and perspectives on other important issues as well as facilitate the identification of areas for future collaboration.
- 2.18 Regarding data collection for performance indicators, many executing agencies are not yet fully sensitized to the need to provide additional resources from their own budgets for data collection. Especially where counterpart resources are limited, they are unable to give the necessary priority to this important issue. The timely collection and use of data to measure performance will improve if resources for this purpose are included in the design of future projects. At the same time, project team should consider a menu of indicators for established outcomes, and to select those that are not only technically relevant but also highly possible to verify.
- 2.19 While all projects are expected to achieve their objectives in terms of performance indicators, factors related to institutional and financial sustainability often develop outside the scope of the project and after the execution period. This reduces the long-term impact of the project. The Bank's dialogue with the GoB during the programming process should seek to address issues of the sustainability of operations completed in earlier project cycles (e.g., the Environmental and Social Technical Assistance project -ESTAP-, the Southern Highway and BAHA projects, etc.).

D. Coordination with Bilateral and Multilateral Development Agencies

- 2.20 Major bilateral and multilateral development agencies working in Belize are the UK's Department for International Development (DFID), EU, the Caribbean Development Bank (CDB), IMF, WB, the United Nations Development Program (UNDP) and the International Cooperation Development Fund of Republic of China, Taiwan (ICDF). At the end of this section, Table 9 outlines areas of coordination with the donor community in Belize.
- 2.21 In the case of **DFID**, coordination of activities will be concentrated on sustainable economic development and poverty reduction issues. DFID will operate a Strategic Fund, providing support to targeted interventions. The estimated cost of DFID program is 300,000-600,000 sterling pounds over a period of three years

(2003-2006).²² The focus of DFID's engagement with the GoB is the Medium Term Economic Strategy and the NPESAP. Regarding the GoB's Medium Term Economic Strategy, DFID places its emphasis on macroeconomic and governance issues, seeking to develop monitoring and evaluation systems to measure progress against agreed targets. The Bank is in close contact with DFID representatives in Belize and Barbados to coordinate prospective actions to assist the GoB to enhance macroeconomic stability (i.e., public expenditure review). As to the NPESAP, the Bank is already collaborating with the efforts started by the GoB, DFID and other agencies in the area of poverty reduction through the TC: "National Poverty Elimination Strategy and Action Plan 2003-2008".

- 2.22 The **EU** (including DFID) is the largest grant donor contributor to Belize. In its Country Strategy Paper for 2002-2007,²³ the EU defined focal and non-focal areas for specific interventions. The focal area will be the agricultural sector, while overall institutional capacity building of the public administration will constitute the non-focal area. The National Indicative Programme provides for approximately € 7.8 million in grant funding for rural development projects under the ACP-EU Partnership Agreement (A-allocation) and for a further € 1 million to cover unforeseen needs such as emergency assistance, contributions to internationally agreed debt relief initiative and support to mitigate adverse effects of instability in export earnings (B-allocation). Prospective collaboration with the EU could be focused on private sector initiatives in the agriculture sector.
- 2.23 The **CDB** has been an important partner of Belize and the Bank through project cofinancing. As outlined in the CDB Strategic Plan for 2000-2004, the CDB shares similar strategic objectives with IDB.²⁴ Ongoing CDB activities in 2003-04 are oriented toward the social sector, through grant financing to control and prevent HIV/AIDS and strengthening the Toledo Development Corporation as well as community-based organizations in the Toledo District. The Social Investment Fund/Basic Needs Trust Fund (CDB and Government of Canada) is a five year initiative, which will provide US\$6.8 million for poverty reduction projects, especially in the southern districts of Belize through skills training, basic infrastructure projects and community development programs. In addition, the CDB has approved a US\$7.1 million loan in December 2003 for investment in social infrastructure targeted at poor people in depressed communities. Prospective areas for collaboration with the IDB include the development of a human resource strategy for competitiveness and regional development initiatives.

²² Apart from this program, the British authorities condoned US\$2.5 million of Belize debt with the United Kingdom, which will be used by the GoB for social and poverty-related projects.

²³ Belize-European Community, "Country Strategy Paper and National Indicative Programme for the Period 2002-2007".

²⁴ Caribbean Development Bank (CDB), Strategic Plan 2000-2004 "The Road into the New Millennium". Major CDB strategic objectives are: (i) fostering economic growth; (ii) reducing poverty; (iii) promoting good governance and efficiency in public policy formulation; (iv) ensuring that environmental issues are an integral part of program planning; and (v) fostering closer economic integration.

- 2.24 The GoB does not have a formal program with the **IMF**. The Bank is coordinating activities with the IMF to strengthen the Financial Sector Supervision Department of the CBB in order to enhance its capacity to supervise the country's financial and non-financial institutions (TC/MIF). Furthermore, the Bank is in permanent dialogue with IMF staff to exchange information and monitor progress on the macroeconomic situation. Prospective areas for further IDB collaboration with IMF are: modernization of the tax and excise system and debt management strategy.
- 2.25 The **WB** completed a five year Country Assistance Assessment in August 2000, identifying limited project assistance for Belize. The WB currently has two active projects in Belize: a US\$13 million Roads and Municipal Drainage operation and the Community-Managed Sarastoon-Temash Conservation project (US\$0.8 million financed with grant funds from the Global Environmental Facility). The International Finance Corporation has one project that involves the expansion of an existing shrimp production operation (Nova-Ambergris). Apart from infrastructure, aquaculture and environment operations, the WB has been deeply involved in alleviation of structural poverty, HIV/AIDS and in education (i.e., Social Investment Fund and Primary Education Development). In March 2004, the WB has approved a US\$9 million grant to support CARICOM's efforts to reduce the impact of HIV/AIDS on the human and economic development of the Caribbean. Belize will be one of the major beneficiaries due to the high incidence of the disease. At present, the WB has one social project in the pipeline: "Human Resources Development" (US\$12.4 million), which has been postponed. Human resource development is an important area for prospective IDB collaboration with the WB as well as the implementation of a public sector expenditure review.
- 2.26 The **UNDP** Country Program for Belize, known as the Country Cooperation Framework for 2002-2006, focuses on social policy planning for poverty reduction, promotion of democratic governance and sustainable management of environmental resources. The UNDP Country Program also strategically links these major areas to key cross-cutting issues, including HIV/AIDS, gender equality, youth, crisis management and human rights. The UNDP and IDB started to work together in the NPESAP. Apart from poverty reduction, prospective areas for future collaboration are governance and environmental sustainability issues.
- 2.27 **ICDF** of Taiwan is a very active development agency in Belize. At present, ICDF has one technical mission in the country working on three agricultural industry and crop diversification and improvement projects. Belize is also a party to the two ICDF technical assistance projects developing small and medium enterprises and a food packaging industry, both including six other participatory countries. Additionally, ICDF has established a small farm holders financing scheme oriented to provide loans to eligible small farmers. Prospective areas of IDB collaboration with ICDF include support to small and micro entrepreneurs in agriculture, infrastructure and tourism projects.

Table 9: Strategic Areas and Coordination with Other Agencies

Strategic Areas	DFID	EU	CDB	IMF	WB	UNDP	ICDF	IDB 1999-3	IDB 2004-8
Enabling Environment	MS GI	MS GI	GI	MS		GI		TI	MS GI TI
Agriculture and Agribusiness		AD PS	AD		PS		AD SM	AD	AD PS ID SM
Tourism and Environment			EC		EC	EC	TD	EC TD	EC TD LS
Social Sector	PR	HS	HS PR HA		ES PR HA	PR HA		HS PR	HS PR
Regional Development			ID LS		ID		ID	ID	
Natural Disasters		EA	EA					EA	EA
Other		CS LC				GE HR			

Source: IDB elaboration based on Multilateral and Bilateral Development Agencies information

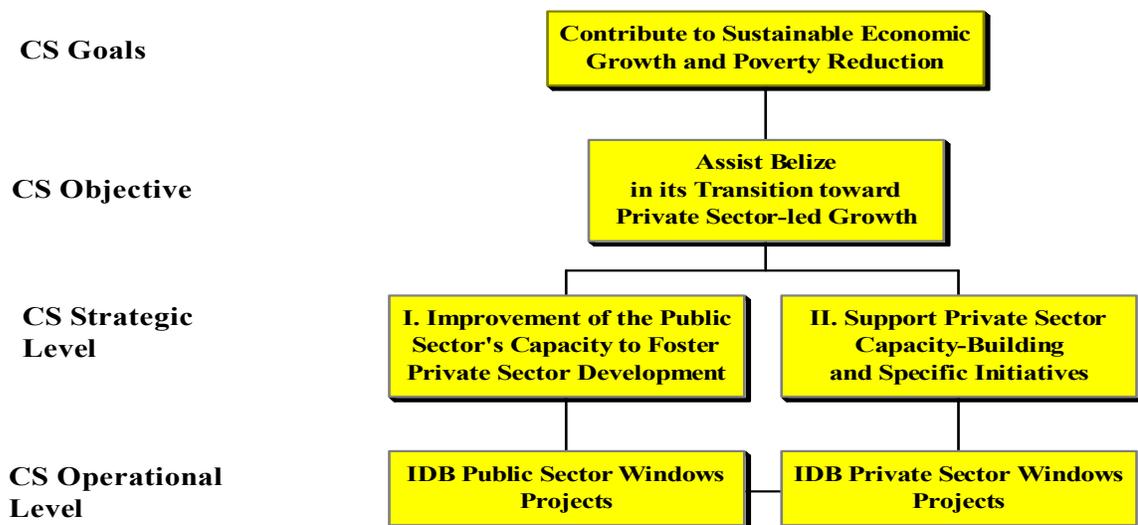
Note: When the square is colored in yellow means main focal area for intervention; in white with a label means a non-focal area for intervention; and in green means proposed areas for interventions of the 2004-2008 IDB Country Strategy with Belize.

Labels: **AD:** Agriculture Development; **CS:** Civil Society; **EA:** Emergency Assistance; **EC:** Environment Conservation; **ES:** Education Sector Support; **GE:** Gender Equality; **GI:** Governance and Institutional Capacity-Building; **HA:** HIV/AIDS; **HR:** Human Rights; **HS:** Health Sector Support; **ID:** Infrastructure Development; **LS:** Support to Local Communities; **MS:** Macroeconomic Stability; **PR:** Poverty Reduction; **PS:** Private Sector Development; **SM:** Small, Medium and Micro Enterprises Support; **TD:** Tourism Development; **TI:** Trade and Investment Promotion.

III. IDB COUNTRY STRATEGY WITH BELIZE

A. Objective and Rationale

- 3.1 Taking into consideration the characteristics of Belize, the country's key development challenges as well as the implementation of the former Country Strategy, the main objective of the CSBL will be to assist Belize in its transition toward private sector-led growth. Sustainable economic growth and poverty reduction will constitute the overarching goals of the CSBL. Accordingly, and as outlined below, the CSBL proposes interventions, both financial and non-financial, in the following two strategic areas: (i) Improvement of the public sector's capacity to foster private sector development and, (ii) Support private sector capacity-building and specific initiatives.



- 3.2 The CSBL rationale is based on the selection of a small number of high-impact operations in which the Bank Group has comparative advantage and is able to mobilize additional resources from other multilateral and bilateral development agencies. This represents a sustained effort of the Bank Group to coordinate its interventions in order to achieve the proposed objectives and goals.
- 3.3 **Strategic Area I: Improvement of the Public Sector's Capacity to Foster Private Sector Development.** This strategic area sets the framework for proposed operations of the Bank Group, which aims at supporting the public sector's capacity to improve macroeconomic conditions, enhance its strategic position regarding new trade and integration agreements as well as to foster the private sector's productivity and competitiveness. For operational reasons, this strategic area will be divided into three major sub-areas:

- (i) **Macroeconomic Stability:** The Bank will support GoB's policy actions to enhance macroeconomic stability through designing and executing a debt management strategy, upgrading the tax system, conducting a comprehensive public sector expenditure review and setting up an information system to monitor the public sector's performance.
- (ii) **Trade Facilitation and Competitiveness Enhancement:** the Bank will assist the GoB to implement initiatives that would bring about positive spillover effects on the private sector and increase its competitiveness by: reassessing investment incentive schemes in light of the upcoming trade negotiations; revising export diversification and promotion policies; supporting small and medium enterprises' initiatives in agriculture and aquaculture sectors; and investing in key infrastructure projects to boost economic activity.
- (iii) **Tourism and Environment:** The Bank will continue supporting the GoB in its efforts to upgrade and expand the tourism industry by a comprehensive program for sustainable tourism as well as preserving the quality of natural environment through solid waste management.

3.4 **Strategic Area II: Support to Private Sector Capacity-Building and Specific Initiatives.** This strategic area aims at directly supporting the Belizean private sector in those endeavors oriented to increase their productivity, access new markets and develop competitive small, medium and micro-enterprises. The private sector windows of the Bank will finance specific private sector projects designed to increase the country's competitiveness in both domestic and external markets. Further, the private sector windows of the Bank will assist private sector organizations to strengthen their institutional structure in order to promote business networking, and promote a strategic dialogue and partnerships with the GoB. The initiatives will incorporate environmental and social factors in their design to ensure consistency with the CSBL goals of sustainable economic growth and poverty reduction.

B. Prospective Areas of Intervention

1. Strategic Area I: Improvement of the Public Sector's Capacity to Foster Private Sector Development

a. Macroeconomic Stability

3.5 Since the improvement of macroeconomic stability is essential to foster private sector development, the set of activities in this strategic area will assist the GoB to consolidate public sector policy reforms and the macroeconomic setting. In the baseline-lending scenario (see, Section B.3: Country Strategy Lending Scenarios), the Bank will work with the Belizean authorities to improve public sector management through the following identified TC operations (Annex I, Page 1). These include: **Support to Public Sector Management**, a TC operation that will assist the Belizean authorities to rationalize public sector spending by conducting

a public expenditure review, setting up an information system to monitor public sector performance, as well as to design a debt management strategy to improve indebtedness-related policy decisions and the debt profile of the country based on the findings of the Public Debt Analysis²⁵; **Modernization of Tariff and Excise System**, a TC project that will help the GoB to implement the recommendations derived from the Belize Fiscal Study²⁶; and **Financial Capacity for Managing Catastrophes and other Risks**, which will aim at increasing the GoB's capacity to respond to natural disasters and other risks. These operations will be complemented by the following TC projects in execution: **Support to the GoB on Public Debt Assessment** and **Strengthening Banking and Non-Banking Supervision (TC/MIF)**.

- 3.6 In the high lending scenario, depending on the results and progress made on the reforms, the Bank is also contemplating a PBL operation, **Support to Public Sector Management**,²⁷ which would deepen and consolidate the reforms needed for achieving sustainable macroeconomic stability. This PBL operation, which is supported by the above mentioned TC projects, will be subject to the reform efforts or defined in Section B.3: Country Lending Scenarios: High Lending Scenario.

b. Trade Facilitation and Competitiveness Enhancement

- 3.7 A **Program for Trade and Competitiveness** is proposed for a baseline-lending scenario. This Program will provide the GoB with different instruments in one operation to address a series of critical public and private sector issues that affect Belize's competitiveness. This operation would initially have two major components: trade facilitation and infrastructure components.
- 3.8 The trade facilitation component will assist the GoB to assess its investment incentive schemes in light of upcoming trade negotiations (e.g., CAFTA, FTAA, CARICOM) as well as to build capacity in those Belizean institutions responsible for formulating, negotiating trade agreements and implementing trade policies (i.e., the Ministry of Foreign Trade and BELTRAIDE). This may be accompanied by a national export promotion program in association with major private sector institutions and partners.
- 3.9 The trade facilitation component would also include a mechanism to finance small and medium enterprises' initiatives in agriculture and aquaculture sectors as well as technical assistance resources to identify new markets and products, select pre-investments activities for the adoption of new techniques, adopt sound

²⁵ Noriega, Carlos; "Belize: A Public Debt Analysis". This study was financed by the TC: Support to the GoB on Public Debt Assessment.

²⁶ Jenkins, Glenn P. and Chun-Yun Kuo; "Belize Fiscal Study".

²⁷ This PBL operation may include the option of disbursing all or a portion of the loan in the form of a Bank guarantee, allowing the GoB to use that guarantee in the international financial markets to enhance the terms of its public external debt, extending available tenors, reducing interest rates, etc. GN-2106-11.

- management practices, improve production and firm integration in supply chains, and review existing labor resources vis-à-vis the requirements of the private sector.
- 3.10 The infrastructure component will finance priority infrastructure projects, especially in rural areas such as secondary and feeder roads, to lower agricultural production costs as well as to facilitate the growth of exports and agro-industrial production. The selection of projects would be undertaken jointly through a public-private mechanism, including the civil society.
- 3.11 To appeal to prospective stakeholders involved in this operation, the Program design will be accompanied by a dialogue among the GoB, the Bank and the private sector, culminating in a **Forum on Competitiveness**. This dialogue and Forum will be a means not only to adapt the proposed Program to public and private sectors' needs, but also as a way to stimulate the formation of public-private partnerships to assess and carry out specific actions to increase the competitiveness of economic activities with growth potential. Throughout this process, the Bank will encourage other donors' participation and the mobilization of additional resources. To orient and assist this process, a **Business Climate Assessment and Policy Agenda** will be carried out prior to the Forum to provide a background diagnostic of the pressing issues and potential areas for updating legislation and institutions. This assessment will complement the work previously done in the area of competitiveness and private sector,²⁸ which supported the implementation of the "IDB-Private Sector Business Forum" in 2003.
- 3.12 Furthermore, the Program for Trade and Competitiveness will be supported by the following TC operations: **Strengthening the Public Utility Commission (TC/MIF)** and **Human Resource Strategy for Competitiveness**. The Program will be directly assisted by the following ongoing TC operations: **Capacity Building for Trade and Investment Promotion (BELTRAIDE)** and **Institutional Strengthening for Trade Negotiations**, and indirectly by the loans: **Modernization of Agricultural Health Services (BAHA)** and **Land Management Program**.

c. Tourism and Environment

- 3.13 Regarding tourism in Belize, the CSBL proposes the implementation of a **Program for Sustainable Tourism** for the baseline-lending scenario. The rationale for this Program is based on the central role of tourism for economic growth and development, the current authorities' commitment to expand this sector,²⁹ the successful execution of the Tourism Development I project (1250/OC-BL), and the challenges faced by this sector in the years to come.

²⁸ Guerrero, Reynaldo; "Private Sector Note: Belize".

²⁹ The GoB has made the firm commitment to the expansion of the tourism industry in an effort to optimize sectors with economic growth potential, thus creating job and entrepreneurial opportunities for the people. Government of Belize, "Medium-Term Economic Strategy 2003-2005," pages 33-38.

- 3.14 This Program may include the development of new archeological sites as well as tourism-related infrastructure, the improvement and maintenance of current tourism facilities, the design and implementation of mechanisms to enhance environmental management capacity with the participation of the private sector, the provision of training programs for tourism workers, the facilitation of credit for small scale tourist operators and the strengthening of community development initiatives. The Mundo Maya Circuit initiative may be included as part of this Program.
- 3.15 Future Bank activities in tourism would be complemented by the following TC operations: **Training in Eco-Tourism** and the prospective **Strengthening Airport Security (TC/MIF)** and **Improving the Competitiveness of Micro and Small Enterprises in the Cruise Ship Tourism Sub-sector (TC/MIF)** projects; together with the ongoing **Tourism Development I** loan.
- 3.16 In addition, the CSBL proposes an operation that is already in the pipeline and in its final stage of preparation: **Solid Waste Management (BL-0021)**. This private sector oriented-operation will address important environmental and social implications associated with inadequate solid waste collection and disposal, especially for poorest households and tourism. The Solid Waste Management project will be supported by the following TC projects: **Strengthening Local Governments and the Solid Waste Management Authority** as well as by **Private Sector Participation in Solid Waste Disposal (TC/MIF)**.
- 3.17 Bank interventions in tourism and environment will be also assisted by a **Country Environmental Analysis** (CEA), which is at present being implemented with the support of INCAE (*Instituto Centroamericano de Administración de Empresas*). The CEA will play an important role not only in mainstreaming environmental considerations in line with the CSBL, which is to assist Belize in its transition towards private sector-led growth, but also in identifying environmental risks and mitigating actions, establishing indicators and monitoring systems, and improving environmental legislation enforcement and incentive mechanisms.

2. Strategic Area II: Support Private Sector Capacity-Building and Specific Initiatives

- 3.18 The CSBL in this area calls for a concerted effort on the part of the Bank's private sector windows. MIF will play a major role within the Bank Group by supporting the process of **reviewing and enhancing incentives for entrepreneurial activities** (including private sector institutional capacity-building) and **assisting businesses in developing their capacities**. Taking into account its ten-year experience in LAC, MIF will assist Belizean **smaller and micro-entrepreneurs to enhance their business performance** through improving their access to market information, applying new production technologies, adopting international quality and environmental standards, developing business plan and acquiring marketing advice.

- 3.19 Additional areas of potential support for small businesses in Belize include the formalization of small firms, enhancing business start-ups and strengthening the investment climate through the adoption and practice of international accounting and auditing procedures. A critical challenge to increase the competitiveness of small and medium-size firms in Belize is **improving access to credit**. Furthermore, MIF will encourage and promote the Belizean private sector to be proactive and to get information and take advantage of the **investment funds** in which MIF has co-invested.
- 3.20 MIF will explore the possibility of extending to Belize the benefits of regional initiatives to improve trade and competitiveness such as strengthening the private sector's role for the Caribbean external trade negotiations, accounting standards in the English Caribbean countries and international accreditation system for sustainable tourism certification. Other prospective areas for MIF operations are: public utilities regulation, airport security, private sector participation in solid waste disposal, micro-enterprises in tourism, diversification and improvement in fisheries, and youth training programs in information and communications technologies.
- 3.21 The **IIC** strategy in Belize will be focused on providing financial support to projects in the country's most dynamic sectors such as **agribusiness, tourism and aquaculture**. **Non-traditional activities** would be also considered, preferably those oriented towards foreign exchange generation. There are, however, some obstacles that impede a more active participation of the IIC in Belize. The lack of audited or independent financial statements, inadequate project information presented by companies (i.e., feasibility studies, market information, etc.) and the relatively small size of prospective operations are among the major constraints. However, many of these limitations may be overcome in the near future by the support provided by MIF to this area.
- 3.22 The IIC is also placing its attention in the growing **tourism sector**, preferably to finance the expansion of existing operations (e.g., hotels). The IIC has a wealth of experience in this area in LAC, which will contribute to enhance businesses in this crucial sector of the Belizean economy. At present, the IIC is considering operations in **wood processing and agribusiness**. Both operations would be cofinanced through the Line of Credit that the IIC maintain with the Latin American Agribusiness Development Corporation.
- 3.23 Due to the limited size of potential infrastructure projects in Belize and the relative high transactions costs of doing business with the **Private Sector Department** for small projects, the number of prospective clients for PRI in Belize is very low. Despite this, PRI works very closely with the Country Office to identify and pursue close relationships with potential clients. Two sectors have figured prominently in this regard: the telecommunications and transportation (airport). Within the latter sector, the expansion of the Philip Goldson

International Airport is of particular relevance.³⁰ PRI has been closely monitoring the development of this project since its inception. Airport expansion is at the top of GoB's agenda due to the project's impact, particularly on the tourism industry.

3. Country Strategy Lending Scenarios

- 3.24 Prospective lending activities of the Bank will be based on two working scenarios for the 2004-2008 period: A **Baseline-lending Scenario** and a **High-lending Scenario**.
- 3.25 **Baseline-lending Scenario:** In this case, Bank's operations will finance projects that under the existing economic setting and executing capacity would increase the public sector's capacity to foster private sector development and promote the sustainable development of economic activities with high growth potential. Under this scenario, as summarized in Annex I, the Bank proposes the following operations: a US\$6.6 million **Solid Waste Management** project (2004), the **Program for Trade and Competitiveness** (2005), which would amount up to US\$10 million; and a **Program for Sustainable Tourism** (2005), amounting up to US\$15 million. Furthermore, prospective operations will be identified for 2007-2008, which will be a result of the ongoing policy dialogue with the country authorities and relevant stakeholders in Belize. Potential operations would amount up to US\$10 million taking into consideration the absorptive capacity and indebtedness level of the country. The total lending program of the Bank for 2004-2008 period under the baseline-lending scenario would amount up to **US\$ 41.6 million**. This lending scenario will be complemented with technical assistance intended to support improvements in the business climate and environmental conditions as well as strengthen the country's fiscal management capacity, a necessary condition to foster private sector development as well as the competitiveness of private sector's initiatives. It is expected that the identified TC and Country Sector Work programs will create the appropriate conditions for the implementation of the high-lending scenario. Also, the Bank will look for ways to enhance this scenario by additional financing from its private sectors windows.
- 3.26 **High-lending Scenario.** An additional PBL operation, **Support to Public Sector Management** (2006), amounting up to US\$20 million, will be considered to assist the GoB in consolidating ongoing public sector reforms. Consideration for this scenario will be subject to progress in the reform of the public sector to enhance macroeconomic stability.
- 3.27 The reform efforts are the following. First, achieving a primary deficit in the overall fiscal balance of the non-financial public sector of no more than 0.6 percent of GDP in 2004 and a primary surplus of at least 1.6 percent of GDP in 2005. Second, the implementation of the tax system reform in FY 2005/06 that (i) increases the buoyancy of the tax system and makes it more dependent on indirect

³⁰ The GoB has recently granted in concession the international airport's management and is complemented by a development plan that aims at supporting economic growth prospects of the Belizean economy.

taxes and less dependent on foreign trade taxes, a natural consequence of the trade integration initiatives pursued by the country; (ii) prepares the country for the elimination by 2008 of favorable treatment of income and other direct taxes enjoyed by firms operating in the EPZs; and (iii) improves and upgrades the tax administration's information system, particularly with regard to the integration of income tax, sales tax, and customs and excise tax departments. Third, the implementation in FY 2005/06 of an institutional framework that ensures that the formulation of debt management policies and strategies is coordinated with fiscal, monetary and financial sector policies, and more generally with macroeconomic policy. Fourth, the implementation in FY 2005/06 of recommendations on integrated fiscal management and expenditure rationalization derived from a comprehensive public expenditure review to be carried out in FY 2004/05 (see, Matrix, Strategic Area I: Macroeconomic Stability). The total lending program of the Bank for 2004-2008 under the high-lending scenario would amount up to **US\$61.6 million**, in addition to prospective financing from the private sector windows of the Bank.

- 3.28 Lending to Belize during the 2004-2008 period would remain well within the exposure guidelines established by the Bank (GN-1835), including the approval of proposed operations under the high lending scenario. IDB debt service to total projected exports will not exceed 2 percent (the IDB threshold is 8 percent) and the same will occur with the ratio of IDB debt service to total debt service, which will not surpass 15 percent (the IDB threshold is 30 percent). The Bank exposure in Belize will not exceed 1 percent of total IDB debt outstanding (the IDB threshold is 18 percent). Furthermore, it should be noted that Belize's outstanding debt balance to the Bank (US\$65.5 million) represented in 2003 approximately 11 percent of the country's public external debt (US\$603.7 million), excluding the publicly guaranteed debt (US\$256.9 million), around 8 percent including the publicly guaranteed debt, and 25 percent of the bilateral and multilateral debt (US\$262.4 million). Belize's projected debt service to IDB in 2004 (US\$4.8 million) will represent 1.2 percent of the total projected value of exports for the same year (US\$396 million). Belize is current with its obligations to the IDB.

C. Country Sector Work Program

- 3.29 As previously mentioned, the country work will include the implementation of the **Forum on Competitiveness** in 2004 along with a **Business Climate Assessment**, which will forge public-private sector partnerships aiming at assisting the implementation of this CSBL. The proposal to undertake a **Business Climate Assessment** will be formalized in a memorandum between the GoB and IDB, committing each to collaborate in the diagnostic studies and the development of an implementation strategy.³¹ The results from the Assessment and the Forum will be key inputs for the design and implementation of the Program for Trade and Competitiveness as well as the Program for Sustainable Tourism.

³¹ This effort is part of the Business Climate Initiative launched by the IDB at a conference in December 2003 (CC-5896)

- 3.30 Another important activity in Belize in 2004 will be the completion of a **Country Environmental Analysis**. The objective of the CEA for Belize is to mainstream environmental considerations in line with the CSBL, which is to assist the country in its transition towards private sector-led growth. The CEA will take a focused approach by identifying key relationships between environment and economic growth, critical environmental concerns, risks, indicators and benchmarks, institutional capacity to implement and enforce appropriate environmental policies, as well as how to create the necessary environmental conditions for key sectors of the economy, such as tourism and aquaculture.
- 3.31 Within its analytical framework, the CEA will also single out and recommend environmental priority actions that should be considered and incorporated in the proposed lending program (i.e., Solid Waste Management; the Program for Trade and Competitiveness; and the Program for Sustainable Tourism). Furthermore, the CEA will identify opportunities for Belize to tap into complementary sources of financing, including private sector's and non-reimbursable TC operations.

D. Implementation Risks

- 3.32 One of the major risks associated with this CSBL is related to the GoB's partial implementation of broad public sector's reforms, which would adversely impact the business climate as well as the private sector's confidence and investment. To mitigate this particular risk, the Bank is proposing an innovative and well focused lending and technical cooperation program that will assist Belize in creating conditions for macroeconomic sustainability and private sector-led growth.
- 3.33 The possibility that the Bank's initiatives and the GoB's policies could elicit a weak response from the Belizean private sector will be another important risk. The Bank will foster private sector participation and "ownership" by conducting a continuous dialogue with private sector representatives and promote its financial and non-financial instruments to encourage the sector's development. This dialogue will be supported by several Bank initiatives, including a Business Climate Assessment and Policy Agenda, followed by the Forum on Competitiveness, which will include the public sector, the international community and civil society. These efforts will contribute to create appropriate conditions for in-depth discussions on key competitiveness issues and facilitate the identification of concrete financing opportunities.
- 3.34 Another important risk relates to Belize's vulnerability to natural disasters and environmental deterioration. Apart from the ongoing operation: Hurricane Rehabilitation and Disaster Preparedness (1211/OC-BL), the Bank through its financial and non-financial resources, will assist the GoB to evaluate and implement a suitable financial mechanism to mitigate and manage such vulnerability to natural disasters. In addition, the Bank is undertaking a thorough CEA in order to identify environmental risks as well as establish appropriate monitoring and regulation systems, and improve enforcement mechanisms.

E. Monitoring of the Country Strategy and Indicators

3.35 The CSBL includes a set of indicators to monitor its implementation as well as public and private sectors' performance. These indicators are presented in the Matrix of this Country Strategy (see Matrix following the Executive Summary). A special effort will be required to develop project specific indicators during the preparation of the proposed lending program. Monitoring progress for the implementation of the CSBL includes the following main activities: (i) an annual review and assessment of indicators with the GoB and major multilateral and bilateral development agencies, and (ii) an annual review and assessment of indicators for the private sector. Furthermore, the Bank will continue coordinating activities as well as exchanging information with the IMF to examine the progress achieved on macroeconomic stabilization. The results of the activities enumerated above will be presented to the Board of Directors during the Country Strategy Updates.

F. Agenda for Country Dialogue

3.36 The agenda for country dialogue in Belize will be mainly focused on public sector policy reforms and their implementation to favor the transition towards private sector-led growth. Although this will be a lengthy process, which will exceed the timeframe of the CSBL, the Bank will promote open and frank discussions with the Belizean authorities to explore innovative venues to support the consolidation of such process, especially taking into account the key development challenges of Belize in the medium and long-term.

3.37 This process should not only be centered on the GoB, but also will incorporate private sector organizations, associations and firms, which constitute the driving force behind future economic growth in Belize. The Bank can play a relevant role in creating the conditions and mechanisms for in-depth discussions and agreements on major issues as well as by working together with other stakeholders, such as the civil society and donor community, to help shaping the process in a more coordinated manner.

3.38 A possible agenda for future policy dialogue with the GoB may include: (i) macroeconomic progress; (ii) counterpart resources; (iii) the implementation of a development plan for Southern Belize as a follow-up to the Southern Highway and ESTAP projects; (iv) the financial sustainability of BAHA; and (v) coordination with the donor community. These issues will ensure that Bank support is provided on a coherent basis and will maximize potential development impacts.

The Bank Group Operational Program 2004-2008

Proposed Lending Program

Loan Name (Prospective)		Baseline Scenario (US\$ Million)	High Scenario (US\$ Million)
Solid Waste Management	2004	6.6	6.6
Program for Trade and Competitiveness	2005	10.0	10.0
Program for Sustainable Tourism	2005	15.0	15.0
Support to Public Sector Management (PBL)	2006	N/A	20.0
Prospective Operation/s to be identified	2007-08	10.0	10.0
Total		41.6	61.6

Tentative TC Program Identified for 2004-2008

TC Name (Prospective) (Year)	Objective	Rationale
Improving Capacity to Negotiate the FTAA (2004)	(i) Expert advice in developing market access in the FTAA; (ii) Trade information network.	Enhancing the capacity of Belize to develop negotiating positions related to the FTAA
Support to Public Sector Management (2004-05)	(i) Conduct a comprehensive public sector expenditure review to improve the efficiency, transparency and targeting of public investments; (ii) Support the Central Bank and the Ministry of Finance to implement measures to improve public debt management; (iii) Set up an information system to monitor public sector performance	This TC will be critical to support the GoB efforts to reduce fiscal deficits and improve the debt profile of the country. This TC linked to the PBL operation.
Modernization of Tariff and Excise System (2004-05)	(i) Develop a set of tax policy options that would move the fiscal system over time to be more compatible with both WTO and other bilateral or regional agreements; (ii) Upgrade the tax administration information system	Same as above.
Human Resource Strategy for Competitiveness (2005-06)	(i) Develop an interrelated approach between the provision of educational services at secondary and tertiary levels and private sector's labor requirements; (ii) Assessing the needs of youth in the workforce; (iii) Prepare Belize to meet the requirements of competition at regional and international levels.	This TC will be essential to create the foundations for the much-needed human resource strategy and its relationship with education, productivity increases and employment opportunities in the private sector.
Strengthening data collection, monitoring and evaluation capabilities (2005-06)	(i) Provide technical support to the Ministry of National Development to increase its capabilities to facilitate monitoring and evaluation of public sector's performance.	Facilitate monitoring activities for this Country Strategy
Financial Capacity for Managing Catastrophes and Other Risks (2006-07)	(i) Undertake a rigorous evaluation of probable losses caused by potential natural disasters; (ii) Put in place financing and cost-sharing mechanisms to rationalize public-private expenditures to cover risks.	Help Belize to meet the challenges of improving competitiveness through better disaster risk management.

TC Already Approved in Support of CSBL Activities		
TC Name (Fund)	Month/ Year	Amount (US\$ millions)
National Poverty Elimination Strategy and Action Plan 2003-2008 (JPO)	Aug/2003	0.3
Local Governments and the Solid Waste Management Authority (CAB)	Nov/2003	0.1
Strengthening Banking and Non-Banking Supervision (MIF/MTC)	Dec/2003	0.5
Total	---	0.9

Country Sector Work Program		
Name	Department/Division	Year
Country Environmental Analysis	SDS/ENV, RE2/EN2-RE2/OD3 (in progress)	2004
Business Climate Assessment	RE2/FI2-PRI, MIF, IIC-RE2/OD3	2004/05
Forum on Competitiveness	RE2/FI2-PRI, MIF, IIC-RE2/OD3	2004/05

Inter-American Investment Corporation (IIC)		
Loan Name (Prospective)	Year	Amount (US\$ millions)
The Wood Depot	2004	0.75
Citrus Products of Belize Ltd.	2004	1.50
Total	---	2.25

Multilateral Investment Fund (MIF)		
TC Name (Prospective)	Year	Amount (US\$ millions)
Strengthening the Public Utility Commission	2004	0.5
Airport Security Improvements	2004	0.5
Private Sector Participation in Solid Waste Disposal	2004	0.3
Improving the Competitiveness of Micro and Small Enterprises in the Cruise Ship Tourism Sub-sector	2004	0.5
Support to the National Fishermen's Cooperative	2005	t.b.d.
Youth Training Program in IT	2006	t.b.d.
Total	---	1.8

Millennium Development Goals for Belize

Year 2015 Targets	Current Situation in Belize	Probability of Achieving Goals	Worldwide or LAC Situation
Goal 1: Eradicate Extreme Poverty and Hunger			
Halve the proportion of people whose income is less than US\$1 a day	According to the Living Standards Measurement Survey (2002) the indigent population reached 10.8% and the poor population 33.5%	Unlikely	25% of world population live in extreme poverty conditions
Halve the percentage of people who suffer from hunger	Prevalence of underweight children under 5 years of age: decreased from 6.2% in 1990 and 5% in 2000 (UNDP)	Likely	In developing countries 28% of young children are underweight and underfed
Goal 2: Achieve Universal Primary Education			
Children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	The net enrolment ratio for primary education increased from 97.8% in 1990 to 99.4% in 2000 (WB)	Very Likely	One in five school-age children are not in school in the world's poorest countries. Countries in LAC have 97% of children in school
	The literacy rate of 15-24 years-old people: increased from 96% in 1990 to 98.4% in 2003 (UNDP)	Likely	
Goal 3: Promote Gender Equality and Empower Women			
Eliminate gender disparity in primary and secondary education preferably by 2005 and in all levels by 2015	Ratio of girls to boys in primary and secondary education: increased from 96.4% in 1990 to 97.2% in 1999 (WB)	Possible	Boys and girls have relatively equal opportunity to attend primary school in LAC
Goal 4: Reduce Child Mortality			
Reduce by two-thirds between 1990 and 2015 the under five mortality rate	Under five mortality rate: reduced from 49 per 1,000 in 1990 to 37.6 per thousand in 2000 (WB)	Possible	The under five mortality rate for the whole world is 78 per thousand born alive
Goal 5: Improve Maternal Health			
Reduce by three-quarters between 1990 and 2015 the maternal mortality ratio	Maternity mortality ratio: N/A for 1990, 140 per 100,000 in 2000 (UNICEF) Proportion of births attended by skilled health personnel: increased from 77% in 1990 to 96.9% in 2001 (PAHO)	Likely	In the world, there are 400 maternal death per one hundred thousand births
Goal 6: Combat HIV/AIDS, Malaria and other Diseases			
Have halted by 2015 and begun to reverse the spread of HIV/AIDS	Contraceptive prevalence rate (percentage of women of 15 to 49 years-old): increased from 47% in 1990 to 56% in 2002 (UNICEF)	Unlikely	The incidence of HIV/AIDS for adults in the world was 1.05% in 1999
Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	Prevalence and death rates associated with tuberculosis: N/A by 1990 and 40/one thousand in 1998 (WHO)	N/A	N/A
Goal 7: Ensure Environmental Sustainability			
Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources	Proportion of land area covered by forest: 74.7% in 1990 and 59.1% by 2000 (WB)	Possible	The average annual deforestation rate in low-income countries during 1990 to 2000 was 0.8% compared to a world average of 0.2%
Halve, by 2015 the percentage of people without sustainable access to safe drinking water and basic sanitation	Access to an improved water source: N/A in 1990 and 76% in 2002. Access to improved sanitation facilities: N/A in 1990 and 42% in 2002 (UNDP)	Unlikely	80% of world population have access to safe water (2000). 45% of the population in low-income countries have access to improved sanitation.
Goal 8: Develop a Global Partnership for Development			
In cooperation with developed countries, develop and implement strategies for decent and productive work for youth	Youth unemployment rate (percentage of total labor force ages 15-24): decreasing from 23.4% in 1995 to 22.5% in 1999 (WB)	N/A	N/A
In cooperation with the private sector, make available the benefits of new technologies, especially information and communications	Telephone lines and cellular subscribers per 1000 population: increased from 91.6 in 1990 to 218.8 in 2000 (WB)	Likely	N/A

Regional Trade Agreements: Implications for Belize

Introduction

1. Belize enters its main export markets, the United States and the EU under preferential trade agreements. The United States remains the most important trading partner of Belize. Exports to this market historically represented more than 40 percent of total exports and the EU (including the United Kingdom) approximately 35 percent. Neighboring regions or countries such as CARICOM, the Central American Common Market and Mexico continued to be marginal markets (less than 10 percent). There will be significant challenges ahead in relation to the phasing out of European preferences in 2008, and the launching of the Free Trade Area of the Americas (2005), which will erode the Caribbean Basin Initiative (CBI) and other preferential regimes.
2. With regard to sub-regional free trade agreements, Belize is a full member of CARICOM and is making progress, as agreed, toward the formation of a single market, participating with other member states in trade negotiations. Exports to CARICOM remain relatively low due mainly to high transportation costs. However, Belize may enhance its export profile to CARICOM by developing a strategy to attract Central American and Mexican investors interested in Caribbean countries' market.
3. Belize also participates in the Central American Integration System, which is a regional political integration body, but it is not a member of the Central American Common Market (CACM) and has no trade agreements with neighboring countries. Trade flows to Central America are below potential. Likewise, based on geographic proximity, exports to Mexico remain also well below their potential.
4. The Central America Free Trade Agreement (CAFTA) with the United States will affect its trade and integration strategy. This is because CAFTA would affect Belize's capacity to compete in investment-attraction opportunities vis-à-vis Central America and Mexico, since this area will enjoy contractual market access conditions to the United States. An especially important issue is the possibility of a "docking clause" for Belize and other countries (i.e., the Dominican Republic and Panama).
5. Another issue relates to the average tariff level of Belize as well as its dispersion (Table below). Belize compares unfavorably to selected neighboring countries with similar labor costs. This has an impact on competitiveness and price levels, especially for the poorest members of the society. In terms of investment attraction and competition in the United States and EU markets, Belize should carefully monitor its own policy indicators and those of benchmark countries.

Simple Average Tariff for Selected Countries

(In percentages)

Country	Average Tariff	Standard Deviation
Belize	11.4	12.0
Costa Rica	6.0	9.2
El Salvador	7.3	8.7
Panama	8.9	10.1

Source: IDB based on FTAA Hemispheric Database

Special Trade Regimes

6. The issue of Export Processing Zones (EPZs) also requires analysis. Following the World Trade Organization (WTO) agreements, tax exemptions to firms in EPZs must be phased out by 2008. Moreover, rules of origin will determine that non-hemispheric inputs cannot enter EPZs duty free and be exported to hemispheric markets. Since EPZs are important instruments for investment-attraction and export-diversification, appropriate transition mechanisms need to be negotiated and implemented. On this particular issue, Belize is in a similar position to that of other Central American and Caribbean countries.
7. An issue that also deserves attention is the Corozal Free Trade Zone. This Zone has grown rapidly in the last four years, with an estimated US\$255 million in sales in 2002 and over 2,000 people employed. It relies almost entirely on Mexican customers. One of its sources of revenue, gasoline, has recently been out-competed by neighboring Chetumal gas stations, which lowered the price to below Corozal levels, illustrating the latter's vulnerability. New free-zone developments (i.e., at the Philip Goldson International Airport, in Benque Viejo and in the Toledo District) should be carefully considered in light of Corozal's vulnerabilities and lack of planning. Consideration should be given to reconverting the Corozal Free Zone to other, non-commercial activities, such as production of higher value-added services or light manufacturing.

Deep Integration in the Plan Puebla-Panama (PPP)

8. Belize could greatly benefit from other regional integration initiatives such as the Plan Puebla Panama (PPP). The goal of the PPP is to take advantage of the human and ecological riches of the Mesoamerican region within a framework of sustainable development and respect for its ethnic and cultural diversity. This represents a renewed vision of integration through its extension to a geographic area that shares similar characteristics and challenges in terms of sustainable human development.
9. The strategy of the PPP is based on the recognition of multiple links that define the Mesoamerican region, in which Belize is strategically inserted. These links could be used to support structural change in order to address the region's challenges and develop a shared future. At the same time, the PPP promotes initiatives and projects designed to help meet two goals: to promote integration and to foment dialogue between authorities and the civil society to help consolidate a shared vision of economic and social development.
10. One of the major obstacles to achieve a deeper integration of Belize into the Mesoamerican region is related to the resolution of its longstanding border conflict with Guatemala. Under the auspices of the Organization of American States, both countries agreed to establish a "Transition Process" to bridge the period between the presentation of final Proposals (September 16th, 2002) and the time when referenda will be held on the same day in both countries. The Agreement also included a series of important "confidence building measures". The Bank will continue working closely with both Governments to provide all the necessary assistance to reach a satisfactory resolution.³²

³² The Bank is committed to help both countries by establishing and managing a "Development Trust Fund", which will be devoted to development purposes, with especial emphasis on the implementation of various elements of the settlement. A number of donor countries and international organizations are expected to contribute to the Fund.

Public Sector Debt Sensitivity Analysis (2004-2007)

Table I: Public Debt as % of GDP, excluding the Publicly Guaranteed Debt
(At a constant real interest rate of 6.1%)

Low Growth Scenario: GDP Growth rate at 2.1%*					
	2003	2004	2005	2006	2007
Without Policy Change**	66.5	73.5	81.7	90.2	98.9
With Policy Change***	66.5	68.0	67.5	66.9	66.4
Primary Balance required as % of GDP	-6.1	-0.6	2.5	2.5	2.5
Conservative Growth Scenario: GDP Growth rate at 3.6%*					
	2003	2004	2005	2006	2007
Without Policy Change**	66.5	72.5	79.7	86.9	94.2
With Policy Change***	66.5	67.0	66.9	66.7	66.5
Primary Balance required as % of GDP	-6.1	-0.6	1.1	1.1	1.1
High Growth Scenario: GDP Growth rate at 3.6% (2004) and 4.6% (2005-07)*					
	2003	2004	2005	2006	2007
Without Policy Change**	66.5	73.5	79.9	86.4	92.9
With Policy Change***	66.5	67.0	66.9	66.7	66.5
Primary Balance required as % of GDP	-6.1	-0.6	0.4	0.4	0.4

Source: IDB calculations. Data of 2003 based on IMF Article IV Consultation

Table II: Public Debt as % of GDP, including the Publicly Guaranteed Debt
(At a constant real interest rate of 6.1%)

Low Growth Scenario: GDP Growth rate at 2.1%*					
	2003	2004	2005	2006	2007
Without Policy Change**	92.2	99.6	108.6	117.8	127.3
With Policy Change***	92.2	94.1	93.5	92.8	92.2
Primary Balance required as % of GDP	-6.1	-0.6	3.3	3.3	3.3
Conservative Growth Scenario: GDP Growth rate at 3.6%*					
	2003	2004	2005	2006	2007
Without Policy Change**	92.2	98.2	105.7	113.3	121.0
With Policy Change***	92.2	92.7	92.5	92.3	92.1
Primary Balance required as % of GDP	-6.1	-0.6	1.5	1.5	1.5
High Growth Scenario: GDP Growth rate at 3.6% (2004) and 4.6% (2005-07)*					
	2003	2004	2005	2006	2007
Without Policy Change**	92.2	98.2	104.7	111.3	117.9
With Policy Change***	92.2	92.7	92.5	92.3	92.1
Primary Balance required as % of GDP	-6.1	-0.6	0.7	0.7	0.7

Source: IDB calculations. Data of 2003 based on IMF Article IV Consultation

* A low growth scenario of 2.1% represents the average annual growth rate of the Belizean economy in 1994-1998. A conservative growth scenario of 3.6% is the result of prospective growth performance of agriculture, aquaculture and tourism sectors in 2004-2007, offset partially by the phasing out of preferential trade agreements for sugar and bananas as of 2006. The high growth scenario of 3.6% in 2004 and 4.6% in subsequence years (2005-2007) reflects a stronger performance by agriculture, aquaculture and tourism, which more than offset the losses derived from the phase out of preferential trade agreements for sugar and bananas as of 2006.

** This implies that the authorities maintain the current primary deficit (i.e., 6.1% of GDP in 2003) through the rest of the period: 2004-2007. Under these circumstances, public debt as % of GDP will continue to grow in any growth scenario.

*** This implies that the authorities achieve a primary deficit in the accounts of the non-financial public sector of no more than 0.6 % of GDP in 2004 and primary surpluses thereafter, as reflected in each particular growth scenario. Under each set of assumptions, the debt stock would remain stable around the 2003 level. If fiscal adjustments generate primary surpluses larger than those reflected in each particular scenario, the debt stock as % of GDP would start to decline. The larger the adjustment, the faster the decline in the stock of debt.

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OVE's Country Program Evaluation Recommendations

The 1993-2003 Country Program Evaluation carried out by OVE made several recommendations to be considered by Management for the 2004-2008 CSBL. OVE's recommendations and the CSBL linkages to such recommendations are summarized as follows:

1. **Fiscal Deficit and External Debt.** OVE recommended that the next CSBL needs to address the issue of the country's fiscal deficit cum debt and the Bank role in it. The CSBL clearly identified the improvement of macroeconomic stability as one of the major challenges for Belize and proposes a series of initiatives to assist the GoB to consolidate the country's fiscal and external accounts (i.e., through technical assistance oriented to enhance revenues and rationalize expenditures, and a PBL operation). In order to assess the magnitude of the problem, the CSBL carried out a public debt sensitivity analysis, which not only allows the Bank to establish clear relationships between different growth scenarios and reform policy progress, but also a framework for prospective interventions.
2. **Private Sector.** OVE recommended that the promotion of private sector development should be undertaken in the context of loss of preferential trade agreements. The CSBL recognizes that increasing the country's competitiveness through fostering private sector diversification is all the more critical given the loss of preferential trade agreements. This is a major issue for Belize that the CSBL will address through the implementation of a Program for Trade and Competitiveness, technical assistance to strengthen trade negotiation capacities and the preparation of a series of initiatives which involve major public and private stakeholders (i.e., the Forum of Competitiveness, the Business Climate Assessment and the Country Environmental Assessment). These initiatives were the result of an intense process of consultations with the Belizean authorities and the private sector with the objective to tailor the CSBL to the needs of Belize.
3. **Education and Employment.** OVE's evaluation suggested that, given the difficulties in creating year-round jobs in the economy, the Bank and the country examine the feasibility of a program tackling the transition from formal education to labor market employment. Accordingly, the CSBL proposes to address this important issue through a TC project with the objective to create the foundations for a national dialogue on a human resource strategy for competitiveness. The feasibility of a program will depend on the outcomes of such dialogue and the absorptive capacity of the country.
4. **Economic and Sector Work.** OVE recommended that the Bank needs to increase substantially the amount of economic and sector work to enhance the Bank's knowledge and as an input for policy discussion with the Belizean authorities. However, Management believes that the economic and sector work undertaken was adequate for carrying out a meaningful dialogue with the government. Specifically, the economic and sector work undertaken by the Bank was mindful of other donors' and international development agencies' efforts in this area, given concerns for relevancy and efficiency. In addition, the proposed Country Sector Work Program of the CSBL (i.e., the Forum of Competitiveness, the Business Climate Assessment and the Country Environmental Assessment, Public Expenditure Review, etc.) is the result of a broad consultation process that goes beyond the GoB, especially taking into consideration that the Country Strategy's objective will assist Belize in its transition to private sector-led growth. Finally, this program will facilitate the identification of new demand-driven studies, which the Bank will coordinate with international development agencies.

5. **Technical Cooperation.** OVE recommended that TC operations should not be stand-alone operations but should be linked more closely to areas of major activity and be focused in enhancing the institutional capacity surrounding investment activities. Already approved TC projects (2003) and the tentative TC program identified for 2004-2008 is closely intertwined with prospective areas of major activities, as specified in Annex I (Rationale). Moreover, as in the past Country Strategy with Belize (1998-2003), proposed TC operations would include components to enhance institutional capacity where they are deemed appropriate by each individual appraisal exercise.
6. **Goals, Baselines and Indicators.** OVE recommended that the country strategy should define goals, baselines and indicators at the outcome level for each strategic goal as well as mechanisms for collecting their values in the future. The same was suggested at the project level. The 2004-2008 CSBL is a performance-based strategy. It includes a set of output and outcome indicators at different levels to monitor the strategy's implementation progress. The CSBL gives priority to OVE's recommendation and thus proposes a technical assistance project to improve the evaluation of existing and future projects by supporting the Ministry of National Development.
7. **External Auditor's Reports.** OVE mentions that "the worrying low incidence of unqualified external auditor's reports suggests that the upcoming country strategy define specific targets to reduce fiduciary risk realization". The data reported by OVE on Table 4.2 of the Country Program Evaluation (Level of Compliance with Bank's Supervision and Monitoring Mechanisms) shows that compliance with qualified project's EFAS has improved to 100 percent since 2001. The data shows that the Bank has moved rapidly to reduce fiduciary risk and will continue to monitor the sustainability of said progress in the future.