Productive Development Policies for Belize

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Inter-American Development Bank

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<tr>
<th>Acronyms</th>
<th>Description</th>
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<tr>
<td>ADMOS</td>
<td>Agricultural Development Management and Operational Strategy</td>
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<td>ALBA</td>
<td>Bolivarian Alternative for Americas</td>
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<td>ALOS</td>
<td>Average length of stay</td>
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<td>ASCM</td>
<td>Agreement on Subsidies and Countervailing Measures</td>
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<td>ASP</td>
<td>Agriculture Service Program</td>
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<td>ASYCUDA</td>
<td>Automated System for Customs Data</td>
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<td>BAHAA</td>
<td>Belize Agricultural Health Authority</td>
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<td>BCCI</td>
<td>Belize Chamber of Commerce and Industry</td>
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<td>BCSP</td>
<td>Belize Coalition of Service Providers</td>
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<td>BELTRAIDE</td>
<td>Belize Trade and Investment Development</td>
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<td>BLPA</td>
<td>Belize Livestock Producers Association</td>
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<td>BMDC</td>
<td>Belize Marketing Development Corporation</td>
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<td>BPO</td>
<td>Business Process Outsourcing</td>
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<td>BSI</td>
<td>Belize Sugar Industries Limited</td>
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<td>BSP</td>
<td>Banana Support Programme</td>
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<td>BTB</td>
<td>Belize Support Programme</td>
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<td>BTIA</td>
<td>Belize Tourism Industry Association</td>
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<tr>
<td>CABI</td>
<td>Central American Bank of Economic Integration</td>
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<td>CARDI</td>
<td>Caribbean Agricultural Research and Development Institute</td>
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<td>CARICOM</td>
<td>Caribbean Community and Common Market</td>
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<td>CARIFORUM</td>
<td>Caribbean Forum</td>
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<td>CDB</td>
<td>Caribbean Development Bank</td>
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<td>CET</td>
<td>Common External Tariff</td>
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<td>CFZ</td>
<td>Commercial Free Zone</td>
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<td>CTO</td>
<td>Caribbean Tourism Organization</td>
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<td>DFC</td>
<td>Development Finance Corporation</td>
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<td>EDC</td>
<td>Economic Development Council</td>
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<td>EPA</td>
<td>Economic Partnership Agreement</td>
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<td>EPZ</td>
<td>Export Processing Zones</td>
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<td>ET</td>
<td>Environmental Tax</td>
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<td>FAO</td>
<td>Food and Agriculture Organization</td>
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<td>FIP</td>
<td>Fiscal incentives Program</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GoB</td>
<td>Government of Belize</td>
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<td>HACCP</td>
<td>Hazard Analysis and Critical Control Points</td>
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<td>ICT</td>
<td>Information and Communication Technologies</td>
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<td>IDB</td>
<td>Inter-American Development Bank</td>
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<td>IIACA</td>
<td>Inter-American Institute for Cooperation in Agriculture</td>
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<td>LAPPA</td>
<td>Land Acquisition for Public Purposes Act</td>
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<td>LPA</td>
<td>Land Property Act</td>
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<tr>
<td>MAF</td>
<td>Ministry of Agriculture and Fisheries</td>
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<td>MFFSD</td>
<td>Ministry of Forestry, Fisheries and Sustainable Development</td>
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<td>MNRA</td>
<td>Ministry of Natural Resources and Agriculture</td>
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<td>Acronym</td>
<td>Description</td>
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<tr>
<td>MoFED</td>
<td>Ministry of Finance and Economic Development</td>
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<td>MoTI</td>
<td>Ministry of Trade, Investment Promotion, Private Sector Development and Consumer Protection</td>
</tr>
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<td>MTC</td>
<td>Ministry of Tourism and Culture</td>
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<tr>
<td>MSMEs</td>
<td>Micro, Small and Medium Enterprises</td>
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<td>MTC</td>
<td>Ministry of Tourism and Culture</td>
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<td>MTDS</td>
<td>Medium-Term Development Strategy</td>
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<td>MWT</td>
<td>Ministry of Works and Transport</td>
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<td>NEMO</td>
<td>National Emergency Management Organization</td>
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<tr>
<td>NES</td>
<td>National Export Strategy</td>
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<tr>
<td>NFAP</td>
<td>National Food and Agriculture Policy</td>
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<td>NPL</td>
<td>Non Performing Loans</td>
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<td>NSTTF</td>
<td>National Sustainable Tourism Trust Fund</td>
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<td>OAS</td>
<td>Organization of American States</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>OECS</td>
<td>Organization of Eastern Caribbean States</td>
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<td>OIE</td>
<td>Organization for Animal Health</td>
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<td>OPPSD</td>
<td>Office for Public-Private Sector Dialogue</td>
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<td>OVE</td>
<td>Office of evaluation and oversight</td>
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<td>PDP</td>
<td>Productive Development Policy</td>
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<td>PPP</td>
<td>Public-Private Partnership</td>
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<td>RRD</td>
<td>Revenue Replacement Duty</td>
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<td>SBDC</td>
<td>Small Business Development Centre</td>
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<tr>
<td>SIB</td>
<td>Social Investment Fund</td>
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<tr>
<td>SICA</td>
<td>Central American Integration System</td>
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<tr>
<td>WEF</td>
<td>World Economic Forum</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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1. **Introduction. Assessing PDPs: definitions and analytical method**

In the second half of the 20th century, Latin America and the Caribbean region as a whole fell behind other regions in the world in terms of national income (Fernández-Arias, 2014), despite the many efforts by governments of the region to foster the growth and development of domestic industry. By the 1980s the shortcomings of such interventions, broadly categorized as ‘industrial policy’, contributed to a shift towards liberalization in the 1980s and 1990s. But, as Crespi et al., (2014) explain, the limitations of the liberalization period have since led to a reassessment the record of industrial policies, and a new body of research (see, for example: Melo and Rodríguez-Clare, 2006; Hausmann, Rodrik and Velasco, 2006; Harrison and Rodríguez-Clare, 2009; and Crespi et al, 2014) has explored how government policies can stimulate productivity growth. Such policies have been labelled Productive Development Policies (PDPs), to distinguish them from the industrial policies of the past, with which they share some broad aims but are more tightly focused on strengthening productivity rather than expanding industrial production.

According to this analysis, the weaknesses of many industrial policies of the past in Latin America stemmed from three failings: misdiagnosis of the constraints that hold back productivity growth (that is, both ‘market failures’ and ‘government failures’); poorly-focused policy tools that failed to appropriately address the constraints; and a propensity to compound ‘government failure’ as a result of institutional weakness which can, at worst, lead to ‘policy capture’ by vested interests. On the basis of these findings, Crespi et al (2014), identify three broad conditions that PDPs need to meet in order to succeed: (i) clearly-defined objectives must be based on thorough diagnosis of constraints; (ii) they should use appropriate instruments to meet those objectives effectively and efficiently; and (iii) adequate institutional capacity is needed to implement the measures, and prevent ‘policy capture’.

The aim of this study is to apply these insights to a critical appraisal of PDPs applied by the government of Belize (GoB), and in particular on two sectors that account for a large share of economic activity and have acknowledged potential for further growth: tourism and agriculture. Accordingly, following Crespi et al. (2014), this study subjects existing policies to three tests:

1. **Is there a plausible market or government failure that has been diagnosed to justify the policy?**
2. **Is the alleged policy remedy—whether it entails alleviating the failure or redressing its impact—a good match for the diagnosis?**
3. **Are institutional capabilities sufficiently strong to design and carry out a policy as intended?**

On the basis of this analysis, the survey of Belize’s PDPs highlights implications for policy design, using a framework outlined by Crespi et al (2014). They observe that policies fall in to categories that serve as a guide to the public policy considerations that need to be taken into account. The categorization is in terms of (i) the targets of intervention, and (ii) their types. The targets of policy can either be economy-wide (‘horizontal’), or focused on particular industries that are considered key to the economy’s long-term development (‘vertical’); and there are two broad types of intervention: direct government provision of public goods or services (‘public input’), and
interventions in the market through tax concessions, subsidies or regulations (‘market intervention’). Policies can thus be presented in the form of a quadrant, as shown in chart 1.

**Chart 1: A Typology of PDP Interventions**

<table>
<thead>
<tr>
<th>PUBLIC INPUT: state provision of goods or services to enhance performance of the private sector</th>
<th>HORIZONTAL: broad-based, not aimed at specific sectors</th>
<th>VERTICAL: intended to benefit specific sectors</th>
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<tbody>
<tr>
<td>Eg: Matching grant scheme for research and development.</td>
<td>Eg: Matching grant scheme for research and development.</td>
<td>Eg: Phytosanitary controls for specific goods.</td>
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<tr>
<td>Main questions: are the inputs appropriate, effective and efficient?</td>
<td>Main questions: are the inputs appropriate, effective and efficient?</td>
<td>Main question: Is the private sector paying a fair share?</td>
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<tr>
<td>MARKET INTERVENTION: subsidies, tax breaks or tariffs as incentives for the private sector</td>
<td>Eg: Tax concessions for investment spending.</td>
<td>Eg: Tax breaks for a specific sector.</td>
</tr>
<tr>
<td>Main question: does the policy instrument address the market failure that justifies the intervention as precisely as possible?</td>
<td>Main question: does the policy instrument address the market failure that justifies the intervention as precisely as possible?</td>
<td>Main question: can rent-seeking behavior be avoided?</td>
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</table>

*Source: Based on Crespi et al (2014:34)*

In each of the quadrants, policies can be more or less appropriate to the specific conditions. The appropriateness of PDPs depends on: the degree to which they are focused on the constraints that they seek to address; their efficacy and efficiency depend on whether the measures are proportionate to the problem, as well as the capacities and limitations of the implementing authorities; and whether they create new market distortions that can damage productivity over the longer term. The typology is useful because it highlights variation in the amount of risk of creating new distortions, which varies between the categories. The greatest risk of generating such new problems lies in the ‘market interventions’ quadrants. By their nature, such interventions introduce market distortions. If these are carefully targeted on correcting (or compensating for) market or government failure, they may serve to improve productivity; but by distorting markets they have an inherent tendency to create strong constituencies that have an interest in lobbying for continued support. That is, even policies that had a clear economic rationale when they were first introduced can, if allowed to continue beyond the period necessary to achieve their aims, become entrenched because of the political cost of removing them, creating damaging economic distortions that can grow with time. The duration of the intervention is therefore important, and open-ended policies are most vulnerable. Of the four quadrants, Crespi et al (2014) warn that the hazard of entrenching distortions through policy capture by sectional interests is most prevalent.
for policies belonging in the bottom right hand quadrant, involving selective (vertical) interventions to favor particular industries.

Drawing on the analytical method outlined above, this study of Belize’s PDPs begins, in Section 2, with an overview of existing analysis of PDPs in Belize at the national level, that is, policies that lie in the ‘horizontal’ categories. It reviews findings from a series of IDB studies and other literature, and is arranged in three parts: Part (i) summarizes findings on what are the most important factors holding the economy back, that is, Belize’s specific characteristics and structure, and the ‘market failures’ and ‘state failures’ that create the ‘binding constraints’ that justify policy to correct or compensate for them; Part (ii) categorizes the instruments of current policy, as ‘public inputs’ or ‘market interventions’, and considers their appropriateness as responses to these constraints, and factors that will influence their efficacy and efficiency, with a focus on the ‘market interventions’ that carry the highest risks; and Part (iii) identifies policy implications.

Section 3 extends the analysis to take a closer look at ‘vertical’ policy measures that aim to boost growth in Belize’s two most important sectors: agriculture and tourism. This section draws on a series of groundbreaking IDB studies, with additional findings from fieldwork conducted by FIEL consultants, including interviews with public and private stakeholders in the two sectors. For the two sectors in turn, using the same overall structure and analytical method as that employed in Section 2, this section seeks to identify (i) what are the distinguishing features and binding constraints, including market failures, that hamper productivity growth; (ii) to what extent the policies respond appropriately to these; and (iii) policy implications of the analysis.

Section 4 summarizes the main conclusions, highlighting implications for policy and offering suggestions for improvement.
2. Horizontal PDPs in Belize: diagnosis, interventions, capacity and impact

A series of studies over the past decade, including IDB investigations, have examined the evolution of, and challenges for, overall economic growth and development in Belize, and sought to assess the effectiveness and efficiency of policy interventions. IDB studies include general ‘growth diagnostics’ by Martin and Manzano (2010) and Martin (2013), as well as studies of specific policy areas, including health care (MacArtur and Nelson, 2014), the labor market (Lindauer, 2014), trade and integration (Umana, 2014), water and sanitation (Kuratomi and Martin, 2014), trade policy scope and taxation (Monge and Veyrat-Pontet, 2013; Foster and Valdés, 2014), transport (McNich, 2013), citizen security (Peirce, 2013), public employment and pay policy (Lafuente, 2013), regional integration options (Bulmer-Thomas, 2013), education (Naslund, 2013), pensions (Martin, 2012), and tourism taxation (Martin, 2012). This section draws on these diagnoses of policy challenges, objectives and instruments, and their findings concerning the effects of policy in Belize and national economic policy challenges ahead.

2.1 The policy challenge: objectives and problem diagnosis

The first question – what are the justifications for policy interventions? – requires analysis of the reasons for Belize’s relatively weak recent economic performance. This weakness is highlighted in Chart 1, which shows the recent trend in GDP growth per head when compared with Belize’s own history, and with the other economies of the region. Five-year averages of GDP growth per head since the 1980s for Belize, alongside Central American and Caribbean regional averages, show Belize’s exceptionally strong relative performance in the second half of the 1980s – a surge that was driven by the rapid expansion of the tourist industry – followed by deterioration in both absolute and relative terms in the 1990s and 2000s. As tourism expansion has slowed, it seems that Belize’s economic model has lacked the capacity to sustain its former pace of growth.

Chart 1. Real per capita GDP growth: Five-year averages

Belize, Central America and the Caribbean

![Chart 1. Real per capita GDP growth: Five-year averages](image)

Source: Bulmer-Thomas (2012:139).

Focusing on the post-2000 period, Martin (2014) notes that total factor productivity stagnated in 2001-13, with average annual real GDP growth of just 3.6% barely sufficient to keep up with
population growth. The past decade has seen average real increase in GDP per head of just 1% (Chart 2), despite a (short-lived) boost from the discovery of oil. With such a weak performance, it is unsurprising that social conditions have deteriorated. Official data for social indicators are sparse, but the available surveys suggest that the unemployment rate is around 20%, poverty levels are high and, most worryingly, the most recent available data suggests that the percentage of the population below the poverty line rose, from an estimated 34% in 2002 to 41% in 2009). High levels of poverty and unemployment, together with limited state capacity (discussed further below), have provided fertile conditions for gang-related violence and political corruption, presenting urgent challenges for policy-making.

**Chart 2. Belize: Real GDP growth per head (%), annual, 1981-2013**

![Chart 2. Belize: Real GDP growth per head (%), annual, 1981-2013](image)

**Source: Central Bank of Belize.**

In their close analysis of the structure and performance of Belize’s economy, Martin and Manzano (2013) identify a chronically low, and declining, level of private investment as the ‘binding constraint’ on growth. They highlight a worrying downward trend in Belize’s investment:GDP ratio, with private investment of only around 12% of GDP since 1990 and gross fixed capital formation (including both the public and private sectors) averaging close to only 15% of GDP since 2010 (Chart 3).

**Chart 3. Belize: gross fixed capital formation/GDP ratio, 1981-2012 (%)**

![Chart 3. Belize: gross fixed capital formation/GDP ratio, 1981-2012 (%)](image)

**Source: Central Bank of Belize.**

2 The Statistical Institute of Belize produces six-monthly estimates of the unemployment rate, based on a survey. The rates reported in these surveys are generally around one-half the estimated rates reported in the ten-yearly census, which involves a more thorough survey. It is the census figure that it used here.

3 Poverty statistics are scarce. This figure is from surveys conducted by Unicef, which is planning to conduct its next one in 2015.
To boost growth, it is therefore necessary to develop a policy response that tackles the reasons for this lack of private investment; that is, the ‘market failures’ and ‘government failures’ that inhibit it. Following the ‘growth diagnostics’ approach (see Hausman, Rodrik and Velasco, 2005, and Rodrik, 2006), Martin and Manzano (2010) first outline the context, in term of economy’s basic characteristics, within which the difficulties occur, then examine the reasons for the low level of investment. Their findings provide a framework for investigation of the appropriateness, effectiveness and efficiency of government policy.

Context: economic size, resource endowments and preferences

The most important distinguishing features of Belize’s economy are its size, resource endowments, and the current threats that arise from its loss of trade preferences. Each of these are exogenous constraints on investment and growth.

- **Size.** The small size of Belize, in terms of both population and total GDP, contributes to the economy’s high vulnerability to shocks. With a population of just 350,000 and total GDP of US$1.57bn, Belize’s economy, in common with most small economies, has a narrower productive base than larger economies, fewer possibilities for economies of scale in production and less competition in domestic markets. It is therefore relatively heavily dependent on trade, with exports dominated by a few products sold to only a few markets. Moreover, Belize’s export basket is heavily commodity-based – described by Hausmann and Klinger (2009) as “highly unsophisticated” – ensuring that the country’s exporters are price takers in international markets. The openness of the economy, together with the narrowness and nature of the export base, creates a high degree of exposure to adverse weather events, crop disease or any deterioration in international economic conditions. Also, a small economy has weak bargaining power internationally (in relation to both official and business negotiations) and can also sustain only a relatively small state apparatus, limiting its capacity, particularly in specialist areas.

- **Resource endowments.** Belize’s natural resource endowments, with relatively plentiful land and water relative to population size, provide growth potential but also further contribute to investor risk. The economy’s vulnerability to extreme weather events (hurricanes, flooding and drought) is being exacerbated by climate change, which is also causing progressive damage to the coral reef, an important resource for its tourism and fisheries industries as well as for coastal protection. The large size of the territory relative to the scale of economic activity implies high average transport costs, a problem compounded by the shallowness of coastal waters and vulnerability of the coastal ecosystem, which raises the cost (economic and environmental) of providing port services. That is, although Belize is close to the world’s largest market, the US, its physical access to that market is inhibited by this natural barrier.

- **Loss of trade preferences.** As well as these vulnerabilities, Belize’s economy currently faces the challenge of adapting to two developments in the international economy: (i) intensifying regional competition; and (ii) the loss of benefits from preferential export market access

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4 The Belize Barrier Reef Reserve System is on the UN World Heritage Committee’s list of World Heritage in Danger (UN, 2014).
agreements through the Caribbean Basin Initiative, the Caribbean-Canada Trade Agreement, and the European Union Economic Partnership Agreement, that currently provide an estimated 85% of exports with duty-free treatment.

**Tackling Belize’s ‘binding constraints’: diagnosis of market and government failures**

These exogenous characteristics and threats create an urgent need for a policy response to stimulate sufficient private investment to compensate for vulnerabilities and respond to new opportunities and threats. Martin and Manzano (2010) find evidence that investment in the economy as a whole is constrained by both its high cost and low returns. These in turn arise from market and policy failures, and it is these that should be targeted by government policy.

1. **Market failures**

   a. **High cost of investment.** Although average borrowing rates have declined in recent years, they remain high. This is, in part, a symptom of market failure in the form of weak competitive pressures, information gaps and weak property rights. Competitive forces are weak due to the small size and highly concentrated structure of the financial sector. There are just five commercial banks, of which two dominate. Credit unions tend to serve traditional client bases and have offered little direct competition with the banks. There is no local stock market to provide an alternative means of raising finance.

      Information gaps also hamper access to finance for investment. For small businesses especially, a lack understanding of market opportunities or the requirements for accessing credit represent barriers that take costly effort\(^5\) to overcome; and the lack of any system of official ratings further raises the lender risk (and therefore increases cost and reduces availability) of lending for productive investment.

      Weak property rights prevent many businesses, particularly the smaller ones, from securing access to finance. Although the Department of Lands and Surveys has been working to consolidate records from two previous systems since 1999, the system still remains incomplete.

   b. **Low returns to investment.** Martin and Manzano note that under-investment in infrastructure adds to the cost of doing business, and therefore depresses returns. In interviews Belize’s businesses also cite infrastructure inadequacies as a major problem. While high infrastructure costs stem in part from Belize’s natural endowments as a small, thinly-populated, largely agriculture-based country, a World Bank study (2013) supports this perception that Belize’s poor infrastructure represents a significant constraint: it finds that Belize’s costs of exporting and importing are double those of other economies with similar characteristics, such as Guyana, and its percentage of paved roads, at 17%, well

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\(^{5}\) Sanchez and Butler (2009) highlight the cost implications of the effort required to access the information, as well as the finance, needed for investment. This is particularly the case for smaller investors, and for more innovative types of investment.
below the CARICOM average of 43.4%;\textsuperscript{6} municipal airports, vital for tourism, unable to operate after dark, which limits connectivity with international flights; and port facilities, despite having improved in recent years, continuing to suffer from poor physical infrastructure and lack of cold storage capacity and operational inefficiencies, as well as a low maximum draught.\textsuperscript{7} While Martin and Manzano do not view transport infrastructure as Belize’s ‘binding constraint’, they acknowledge that there is under-investment in infrastructure caused by market failure from both lack of appropriability and lack of competition. If an investor is unable to appropriate the benefits from investment, the market system on its own will generate a sub-optimal level of spending on infrastructure because, by definition, private investors will under-invest in these areas to the extent that the returns accrue to society. And a lack of competition, which is often a feature of infrastructure where natural monopolies are common, is especially likely in a small economy. In Belize, major infrastructure installations, including not only ports but also power and telecommunications, have no close substitutes, allowing operators to charge monopoly prices but also leaving them vulnerable to higher costs resulting from the strong bargaining power of trade unions. Since the privatization of ports in 2002, port charges, which were already relatively high, have risen. Prices for power and telecommunications have also been comparatively high. The lack of competition might also be blamed for poor services, which also raise business costs, as noted by the OAS (2011), and constrain returns to investment in activities that depend on such infrastructure.

2. Government failure

a. High cost of investment.

Belize’s history of poor fiscal discipline has squeezed out private investment (by raising the cost of finance and reducing its availability) and contributed to a high public sector debt-to-GDP ratio that heightens macroeconomic risk. In 2000-05, in particular, the deficit swelled due to pro-cyclical spending during a period of relatively strong growth, contributing to widening current-account deficits and a surge in the public sector debt:GDP ratio to over 100%, eventually forcing a fiscal correction that exacerbated the subsequent slowdown. The uncertainty created by a high level of debt is currently exacerbated by contingent government liabilities arising from the government’s potential compensation for former shareholders of nationalized companies, further adding to investor risks.

b. Low returns on investment.

Belize’s burdensome, distortionary and complex tax and licensing system is identified by Martin (2013) as one of the most important obstacles to the productive investment required for sustainable growth. A series of IDB reports on Belize (Alonso et al., 2009,

\textsuperscript{6} Guerrero and Abad (2013) document the problems in the road network. The Belize Maintenance Study (2011) found that roads received on average US$15 million less a year than recommended for maintenance and repair.

\textsuperscript{7} As documented by McNish and Granada (2013).
Country Strategies for Belize 2008-2012 and 2013-18, Martin, 2010, Martin and Manzano, 2013, Foster and Valdés 2014) identify this problem. The objective of Belize’s system of import taxes and licenses (with trade-weighted average customs duties of 15.3%, a wide dispersion of rates, a complex trade licensing system) has been to provide protection for domestic producers, but its effect has been to raise costs, distort markets and impose a heavy administrative burden on enterprises involved in trade. The system also violates WTO rules. This is coupled with an extensive system of tax incentives and exemptions for both trade and domestic taxes. As Crespi et al (2014) note, fiscal incentives and exemptions have a detrimental effect on economic efficiency and productivity in the economy as a whole because they “create an uneven playing field between sectors and enterprises and lobbying for parity, distort investment decisions and incur high transactions costs”. Enterprises that do not enjoy concessions are disadvantaged because they bear an additional tax burden and suffer from a lack of horizontal equity.

The high level of public debt and complex and inequitable tax system both reflect deeper problems of weak governance. As Martin (2013) notes, such weakness generally tends to create a divergence between private and social rates of return to investment. Measurement of governance is contentious, but the various international rankings and indices agree that Belize scores relatively badly, damaging the business climate (especially for new entrants) with difficulties including weak enforcement of contracts, persistent use of the awarding of land rights as political favors, the risk of violent crime and impunity of senior officials. In the case of the tax system, the government’s weakness in the face of vested interests, together with fiscal over-reliance on trade taxes, makes reform extremely politically difficult.10

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8 Belize ranks 106th out of 189 countries in the World Bank’s Doing Business Report 2014, 115th out of 177 countries according to the Heritage Foundation 2014 Index, and 123st out of 143 countries in the World Economic Forum (WEF) Index 2011/12, and has a poor score (61%) in the Millennium Challenge Corporation’s 2013 ‘Government Effectiveness Indicator’. Major weaknesses listed in these surveys include: lack of security, poor infrastructure, and problems related to the enforcement of contracts, starting a business, registering a property, access to credit, the protection of investors, political interference in the judicial system, government effectiveness, fiscal policy, trade policy, regulatory quality and corruption.

9 Crime rates are high and have been climbing. The homicide rate rose from 30 homicides every 100,000 inhabitants in 2002 (Lopez, 2013) to 42 in 2012 (US Department of State, 2013).

10 For example, in 2000, to mitigate fiscal revenue losses resulting from the introduction of the CARICOM’s Common External Tariff (CET), it resorted to the introduction of new distortionary taxes: a revenue replacement duty (RRD), which applies mostly ad valorem rates on imports ranging from 5-50%, and an environmental tax (ET), at a 2% rate on all imports excluding some medicines and food items.
2.2 Horizontal PDPs in Belize: appropriateness

Problem diagnosis and policy approach

The discussion above suggests that, in order to mitigate Belize’s economic constraints arising from exogenous conditions – size, geography and international economic developments – diversification of Belize’s productive base, export basket and markets is necessary. This requires a higher level of investment, which is currently constrained by market and government failures.

The current government of Belize’s overall diagnosis of market and government failures expressed in government policy statements would seem to be consistent with the IDB analysis described above. The overall aims and guidelines for policy, set out its Horizon 2030 Development Strategy published in 2011, confirm that economic diversification is a core strategic aim, with broad policy objectives including the need to tackle weaknesses in governance, reform the tax system to simplify and improve equity, as well as facilitate access to financing, improve infrastructure, fill skills, information and technology gaps. The government has sought policy coherence by elaborating details of the instruments of policy in a series of medium-term plans, including the 2009-13 National Poverty Elimination Strategy (NPES), 2010-13 National Medium-Term Development Strategy (MTDS) and 2007-12 National Export Strategy (NES). Successors to the initial medium-term documents are in the pipeline, with a new ‘Growth and Poverty Reduction Strategy’ having been drafted and National Export Strategy being revised and an investment strategy under discussion.

In line with a shift from traditional industrial policy towards more market-friendly PDPs, the government has put an emphasis on the need to work with the private sector on the development of policies to support private sector investment (including foreign direct investment, FDI), and particularly on the need to foster the establishment and expansion of small- and medium-sized enterprises. Thus the government’s approach appears to conform to the recommendations of Crespi et al (2014), by focusing on building collaboration between public and private sectors in developing and implementing policy. Coordination of the implementation of PDPs is the responsibility of the Prime Minister’s Office, together with the Ministry of Finance and Economic Development (MoFED) and the Ministry of Trade, Investment Promotion, Private Sector Development and Consumer Protection (MoTI). An office for Public-Private Sector Dialogue (OPPSD) has been created within the Prime Minister’s office to both encourage dialogue between government and the private sector, and the ten members of the Economic Development Council (EDC) created in 2011 are split evenly between senior government and private sector representatives.

PDP assessment

The government of Belize’s policy documents suggest that the answer to the first question listed in Section 1 – ‘Are there plausible market or government failures that have been diagnosed to justify policy? – is positive, in the sense that the diagnosis of the policy challenges is plausible, and seems to be broadly consistent with that of the IDB. This brings us to the second question: – ‘Are the
alleged policy remedies a good match for the diagnosis? By using Crespi et al’s categorization of Belize’s horizontal PDPs into ‘public inputs’ and ‘market interventions’ we can examine the key considerations required to assess the fit between policies and constraints.

(i) Horizontal public inputs

In the case of Belize’s horizontal public inputs, listed in Box 1, it appears that they can all be justified by the various types of market failure. They serve to reduce the cost of investment or increase returns in a variety of ways. Many fill various types of information gaps, helping to encourage investment in areas where a lack of good information has been a constraint; and they are often targeted particularly at small and medium-sized businesses, for which access to information is most difficult. In this sense, the public inputs would seem to be a good match for the diagnosis.

Box 1: Horizontal PDPs: public inputs

- **Trade Finance Facilitation (TFF).** The EXPORT Belize Unit aims to increase the take-up of trade finance services by evaluating the weaknesses in the current financial infrastructure of Belize for exporters, then running a pilot program for Trade Finance Facilitation. Work on the initial study began only in July 2014.
- **Innovation ecosystem (ENOVA@UB).** Launched in August 2014, a public-private collaboration to bring together experts from academia and industry to foster research and development, enterprise skills and business and export development.
- **MSME Regional Information for Central America 2011-2014.** An information system and methodology to generate data on MSME performance and characteristics.
- **Quality and Productivity Management Systems Project.** Between 2009 and 2012 this project concentrated in changing the process of entrepreneurial management systems of SMEs, by continuous improvement of their quality and productivity.
- **National Entrepreneurship Development Program.** Launched in March 2013, the program’s main aim is to create a culture of entrepreneurship. The program provides financial aid to qualified SMEs.11
- **The Access to Regional Markets 2012-2014 project** aims to assist MSMEs in accessing opportunities within Central American markets by providing them with specialized information services, market intelligence, supporting to access financing, training and technical assistance.
- **The Small Business Development Center (SBDC) provides information and advice to small businesses on how to start, organize and manage a business. It aims to (i) bring micro-enterprises into the formal sector and regulate to support and sustain MSMEs; (ii) expand micro-finance and increase access to affordable financial services; (iii) build linkages, value chains, market access and market information; (iv) and build entrepreneurship, business knowledge and ICT skills.**
- **The SBDC has also created the Belize Enterprise and Innovation Institute (BEI2), which also provides information. Its current staff is only four, but it aims to raise further funding from the private sector.**
- **Beltraide is also currently working on a Belize Product Development Manual and the National Export Strategy. A draft for Micro, Small and Medium Enterprises Policy and Strategy prepared in 2012 has not yet received legislative approval. This subject is included in the EDC agenda.**
- **Micro-Enterprise Utility Start-Up Package.** Launched in May 2013, it waives connection fees and reduces deposits for water, electricity and telecoms services for newly registered micro-enterprises presenting a complete business plan. Further benefits are being considered, such as exempting startups from business tax if registration occurs within a determined short period after establishment, and reducing paperwork to just one window.

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11 Over 24 months, the project is expected to create or strengthen 31 enterprises (35% led by women) and to generate $124,000 in sales by new businesses.
Land registry. The process of land registration continues.

As noted above, horizontal public inputs are the least contentious type of measure, as they are relatively unlikely to negatively affect economic efficiency. But while the intentions of the policies may be appropriate, their effectiveness and efficiency will vary. Systematic appraisal of the efficacy and efficiency of these programs have generally not been made publicly available by Belize’s official institutions with responsibility for oversight of the measures – the Belize Trade and Investment Development office, Beltraide; and the Investment and Export Promotion Office of Belize, and the Small Business Development Centre (SBDC), both under the control of the trade and investment ministry, MoTI. It is therefore not possible to assess whether the policies have been effective in meeting their objectives, and if they have, measure the cost of the PDPs relative to any positive outcomes they may have achieved.

This brings us to the third question: ‘Are institutional capabilities sufficiently strong to carry out the policies as intended?’ With a small state and restricted resources, Belize’s institutional capacity is clearly limited. Recognizing this, international donors have been involved in many of the programs. Most of this support is offered within the framework of strict performance criteria and measurement, which may have helped to support institutional development, fill gaps and build in feedback and appraisal processes for many of the initiatives. However, this does not provide sufficient guarantee that public input PDPs are both effective and efficient.

(ii) Horizontal market interventions

In the case of market interventions, as noted above, there are additional policy risks because (a) they can be introduced simply as ‘rent transfers’ in the form of market distortions to support uncompetitive companies, often justified in terms of social protection and without having any significant impact on productivity; and (b) they can become entrenched and politically very difficult to withdraw, even if they produce no benefit to national economic development, because they ‘generate high stakes and vested interests among rent beneficiaries’.

The government of Belize’s market interventions that apply to the economy as a whole are listed in Box 2.

Box 2: Horizontal PDPs: market interventions

- Fiscal discipline. With total public debt of 90% of GDP in 2009, the government was obliged to introduce fiscal tightening after a period of debt accumulation under the previous administration. This required the narrowing of the fiscal deficit at a time when growth was slowing; that is, a politically-challenging pro-cyclical adjustment. This has largely been achieved. Together with a second debt restructuring in 2013, the result has been a decline in the government debt:GDP ratio from close to 90% in 2009 to 80% in 2013. The reward has been a narrowing of sovereign debt spreads, from 1,300 basis points in 2008 to less than

However, the nationalization of BTL and BEL in 2013 has created large new liabilities that are not included in these totals, as their value remains under dispute, and the government’s control of spending, particularly in the run-up to elections, remains weak.

- **Customs duties.** After several postponements of deadlines to accomplish with WTO requirements, Belize agreed to comply with the Agreement on Subsidies and Countervailing Measures (ASCM) before the end of 2015, without any possibility of a new extension.\(^\text{13}\)

- **Customs procedures.** In 2011/12, the launching of the ASYCUDA World electronic data interchange system allowed for the reduction of the time required by export and import procedures (World Bank, 2013).

- **Import licenses.** In 2013 the government amended the list of goods subject to licenses (126 tariff lines covering 22 product categories), eliminating 63 items. A temporary tariff surcharge of 40 percent was imposed on the affected products to provide compensatory protection to local producers for two years. The temporary tariff surcharge is in addition to the applied tariff.

In answer to the first question for assessment, these policies seem to be appropriately focused on efforts to correct existing burdens from inherited government failure. This includes the effects of past horizontal market interventions in the form of trade taxes, licenses, subsidies, as well as the need to reduce the level of total debt to sustainable levels. In answer to the second question – are they a good match for the diagnosis? – each of the measures listed have achieved some progress.

A marked improvement in fiscal management, in particular, has helped to reduce the debt:GDP ratio. However, the Ministry of Finance, which is driving the adjustment, does not have full control over the use of public expenditure by government officials to support election campaigns. Such spending risks jeopardizing the gains made to date. In this context, the arrival of substantial new concessionary financing through the Petrocaribe program may have served to further undermine fiscal discipline, despite the government’s efforts to earmark the funds for a relatively tightly-managed public investment program.

The changes to customs duties and procedures also mark clear progress. Belize is now committed to compliance with WTO rules, and major efforts have been made to improve customs procedures, with positive results. However, major challenges remain. Inevitably, these changes have faced resistance from vested interests, including beneficiaries of protective barriers and tax and licensing exemptions. There has also been resistance to change among public officials. In the case of customs officers, opposition to reform has created unanticipated difficulties, which may stem in part from the reaction to the threat of loss of the opportunities for corrupt earnings arising from the complex and discretionary system of duties and licenses.

\(^{13}\) Under the ASCM, developing countries had a more flexible regime to eliminate prohibited subsidies. Article 27.4 of the ASCM required developing countries to phase out prohibited (mostly export) subsidies by December 31\(^{\text{st}}\), 2002, which was later postponed. In 2001, Belize was eligible for a five-year extension of the transition period (up to December 31\(^{\text{st}}\), 2007) plus an additional two-year phase-out period. In July 2007, WTO approved an extension of these procedures through December 31, 2013, with the two-year phase-out period ending not later than December 31\(^{\text{st}}\), 2015.
In the face of opposition, demands for compensatory measures can prove politically irresistible, as illustrated by the introduction of an additional tariff surcharge, although the fact that this has been given a time limit is positive. The trade tax and licensing system, together with the complex web of General Sales Tax (GST) concessions, continue to suffer from ‘policy capture’ by the existing businesses that benefit, and are therefore likely to disadvantage those searching for opportunities for diversification. The policy measures listed in Box 2 represent only modest improvement relative to the extent of distortions and inefficiencies, and consequent constraints on productive investment, arising from government failure.

The problems of implementation of the corrective market interventions are linked with the third question, ‘Are institutional capabilities sufficiently strong to carry out the policies as intended?’ They highlight the government’s greatest challenge in terms of economy-wide PDPs. By their nature, government failures are likely to be the most intractable. Therefore strong political commitment, firm leadership and political skill are required, and improvements are likely to take a long time. Any measures to level the playing field will create losers as well as winners, and tax and licensing concessions have become a widely expected means of providing incentives to particular sectors or industries, or favors to political supporters. The electoral cycle – with general elections every five years and municipal elections in mid-term – strains fiscal discipline in pre-election periods and constrains the timing of any measures that could produce a political backlash, while the electoral pendulum can put advances in jeopardy.

Most importantly, there remains inadequate protection against the risk of further policy capture. The persistence of fiscal incentives schemes serves to underline the difficulty of removing distortions, once they have become entrenched. Private sector stakeholders’ complaints of a lack clear criteria for exemptions, and of high transactions costs on firms (Rowland et al., 2010), may indicate an awareness of the negative impact of the system of tax exemptions, but might equally suggest that businesses in Belize have come to assume that one of the roles of government is to grant exemptions, and therefore continually seek to justify new exemptions rather than demand a level playing field.  

14 This is an example of the ‘Hippos and camels’ problem described by Hausmann et al. (2008). In a context where businesses success depends on winning exemptions, it is unlikely that private sector informants that benefit from exemptions will see such policies as detrimental to growth.
2.3 Horizontal PDPs in Belize: findings and policy implications

The discussion above highlights the challenges faced by the government of Belize in terms of horizontal PDPs. Its diagnosis of market and government failure, as set out in official policy documents, would seem to be well-supported by the evidence. In broad terms, policies seek to (i) improve the cost and availability of finance, and (ii) boost returns to investment. Both ‘public input’ and ‘market interventions’ are being used to achieve these objectives.

To cut the cost of investment, policy seeks to (a) compensate for market failures through public input and market interventions to promote competition by challenging monopolistic behavior by strengthening regulation and supervision, or improve credit information and financial reporting; and (b) tackle government failures by tightening fiscal management to achieve gradual reduction in the burden of public debt (and thus improve the availability of finance for the private sector and create policy space for counter-cyclical policies to be adopted during economic downturns). To boost returns to investment, the government has introduced initiatives to compensate for market failures by providing public input in the form of investment in infrastructure and partnership with the private sector support investment in provision of these public goods, as well as improved regulation; and identified the need to tackle weaknesses caused by government failure by addressing the complexity, burden and inequity of the tax system.

But while the diagnosis of market and government failure for the economy as a whole would seem to be sound, the efficiency and effectiveness of policies have varied. The small size of government imposes important capacity constraints, limiting its ability to evaluate, implement and coordinate PDPs. The government also faces a more fundamental difficulty arising from the power of vested interests. Strong political commitment is required to resolve the problems of governance that compound and entrench government failure. While significant progress has been made in terms of fiscal management, slippage during election periods remains a serious problem; and despite a stated intention to tackle the severe problems in the tax system, progress so far has been weak and prospects are clouded by the political leverage enjoyed by beneficiaries of exemptions.

The government’s capacity constraints make cooperation with international partners all the more important, to help to strengthen policy management and performance monitoring, and improve effectiveness. Given the government’s evident commitment to collaboration with international partners, and the progress that has been achieved in some areas, such support appears to be an effective was to compensate for institutional capacity constraints. However, to improve effectiveness and efficiency, there is an urgent need for improved data collection and fiscal transparency to ensure adequate monitoring and evaluation of PDPs.
3. Vertical PDPs for Agriculture and Tourism

3.1 The purpose and hazards of sectoral PDPs in Belize

In their discussion of PDPs, Crespi et al (2014) pose the important question: should the government be involved in policies that focus on particular sectors at all? They note that selective industrial policies of the past (described as ‘picking winners’), are the ones that have attracted most criticism, not only because they risk reducing economic efficiency (by interfering with the role of the market in determining which sectors provide the best opportunities for development – that is, creating new distortions), but also because they carry an inherently high risk of ‘policy capture’. This objection has been countered, however, in the recent literature on PDPs. Hausmann and Rodrik (2006) argue that ‘horizontal’ policies cannot avoid having varying degrees of impact on different sectors and, moreover, there are specific market failures in particular industries that require appropriate ‘vertical’ policy responses. Such measures can favor sectoral growth and development and thus contribute to national economic performance.

That said, the PDP literature stresses the hazards of vertical PDPs. To avoid unnecessary fiscal cost and prevent policy capture, particular attention needs to be paid to ensuring a clear justification for measures, which must be focused to target specific market failures. Crespi et al (2014) find that in the case of vertical policies, the government needs to take extra care to establish the (i) appropriate size of necessary intervention, to avoid using more state resources than necessary or creating market distortions that favor a particular sector at the expense of others; and (ii) its duration, to minimize the risk of policy capture.

In Belize, the overall justification for PDPs in agriculture and tourism is that the two sectors are not only the most important in the national economy, in terms of export earnings, employment and income (together providing livelihoods for more than half of the population), but also have untapped potential for output growth in the medium term thanks to the country’s geography (proximity to markets) and factor endowments (plenty of as yet unexploited land and water; a favorable climate; a unique coral reef and cultural assets to attract tourists). In terms of performance, the two sectors differ (with the agriculture sector having lagged the rest of the economy for the past three decades, while tourism has been a driver of growth) but both are considered to have been performing below potential in recent years.

IDB studies of the economic development of Belize have therefore focused on these two sectors. Martin and Manzano (2010) devote chapters to each of them within their study of the national economy, and recent Bank activities have included a study of the impact of trade and price interventions on the agricultural sector (Foster and Valdés, 2014), and collaboration with the government on the implementation of its strategy for sustainable tourism, identified as one of four strategic priorities in the IDB’s Country Strategy with Belize 2013-17 (2013).

Following the overview of Belize’s PDPs for the economy as a whole in Section 2, the discussion below examines government policy in these two sectors in turn. The analysis of each sector follows the method used in Section 2: first a diagnosis of existing market and government failures that justify

15 Martin and Manzano (2010:107) report that only a quarter of potential agricultural land is farmed.
state action; then a survey of current policies and discussion of their appropriateness, effectiveness and efficiency; and finally, on the basis of this analysis, a discussion of the implications of these findings for policy.
3.2 PDPs for Agriculture

3.2.1 The policy challenge: objectives and diagnosis

The main aim of government policy to stimulate agriculture in Belize is to improve the performance of the sector, which has lagged the rest of the economy. National income accounts show the sector’s share of GDP to have fallen from 16% in the mid-1990s to 12.1% in 2012 (the latest year for which data are currently available), with only an average of 0.3% per year growth of output over the past 20 years; and external accounts show its share of recorded domestic exports down from 43% to 29% over the same period.

The imperative for agricultural policy is the need to help the sector to adapt to the loss of trade protection and preferential access to export markets as it moves to conform to WTO rules and new EU rules. It seeks to support producers (particularly small farmers) to improve competitiveness or diversify, and to mitigate the social cost of structural change: with 53% of the population still living in rural areas according to the latest Census (2010) and the level of poverty highest in these areas (the rural poverty rate is around 55%, compared with 20% in urban areas), the sector remains an important source of livelihoods for many of Belize's most vulnerable people. These two objectives create an inherent difficulty in terms of focus. Although PDPs that stimulate the growth of the sector would serve both objectives over the longer term by raising productivity, they may not always be the most appropriate means of providing social protection to the most vulnerable communities in the short term. Agricultural policies therefore need to strike a balance between short term social protection and longer term productive development.

Policy also has to respond to the wide variety of conditions faced by different producers. Most farms are small: more than 95% are less than 100 acres, with more than a half of those less than 20, and more than half of those, in turn, less than five; and the smaller farmers, who have little or no collateral, face particular challenges in terms of access to, and the cost of, finance and know-how for investment to raise yields, diversify output or accessing new markets. The type of crop and structure of industries also influences market conditions. Small farms produce most of the sugar, rice, onions, peppers and livestock. Among these, the market structures vary. In the case of sugar, former large plantations are now divided into around 5,000 smallholdings, 99% of which are less than 10 acres, which supply Belize Sugar Industries (BSI), which processes and exports 80% of the crop and also owns 4,000 acres; and of the cattle farms an estimated 85% of farmers have less than 30 animals each while 5% have over 400. Mennonite holdings are quite different from other small farms, with a cooperative and community-driven system (growing mainly food for the domestic market) enabling them to invest more readily in modern methods. The few large, and

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16 Export preferences are already being phased out. Most sugar is exported to the EU under a duty free quota of up to 100,000 tons, which will end in 2015; preferential EU access for bananas will end on January 1st 2017; and the future of duty exemptions for citrus exports to the US and Caricom markets is uncertain.

17 Census conducted by the then Ministry of Agriculture and Fisheries (MAF) in 2007. The International Fund for Agricultural Development (IFAD) estimates that farms under 5 acres account for 24 percent of all farms but only 1.4 percent of the farmland. Adjusting for the under-utilization of the land by larger farms, Martin and Manzano estimate that the smallest 24 percent of farms hold a greater share, at 2.6 percent of the utilized (or usable) farmland, but this is still small.
relatively technically and commercially sophisticated, producers account for most of the output of bananas and citrus: the production of bananas is concentrated among a dozen producers, while 75% of citrus production is accounted for by just 35 of the 525 growers.\(^\text{18}\) The Citrus Products of Belize Limited (CPBL) has a near-monopoly of the processing of citrus (into juice) and exporting.

These variations in farm size, products and market structure mean that the importance of the various types of market and government failure, as well as the urgency of the need for social protection, varies between the different types of producer.

1. Market failure in agriculture

Studies of the agricultural sector have identified several types of market failure that have impeded investment and performance. Some are no different to those affecting the cost of, and returns to, investment in the economy as a whole, but the sector also has particular characteristics that determine their impact, and additional market and government failures that are sector-specific.

**High cost of investment.** The cost of financing for investment by domestic agricultural producers is high not only because of the high interest rates that prevail in the economy as a whole but also due to the perceived additional risks of agricultural production. Factors that contribute to banks’ reluctance to offer affordable finance to agricultural customers in particular include a lack of credit histories, high price volatility, uninsured natural hazards and the lack of secure property rights. Investment is also sub-optimal due to market failures related to sector-specific knowledge gaps. Small farmers use outdated technology not only because of credit constraints, but also because they lack the information they need to innovate by adopting new technologies, sourcing new ‘seeds, seedlings or breeds (in the case of animals)’ (FAO, 2011), identifying potential new markets, or differentiating products.\(^\text{19}\) That is, there are several different types of market failure specific to agriculture in addition to those that raise the cost and reduce the returns to investment in the economy as a whole. These constraints apply particularly to small producers, and to those seeking to diversify into new and untested products and markets.

a) **Low returns to investment.** In interviews, agricultural producers frequently cite inadequate transport infrastructure as a major constraint. Different agricultural producers face particular constraints arising from underinvestment in transport, including the poor quality of roads and port infrastructure. For example, even within the sugar sector, Valdes and Foster (2013) find that growers were most concerned about the poor quality of roads, while BSI representatives interviewed for this study cited the costly delays in unloading and loading, bureaucratic requirements and a lack of cold storage facilities at the port as their main constraint. Meanwhile, livestock producers interviewed reported that drainage and irrigation systems

\(^{18}\) Valdes and Foster (2013).

\(^{19}\) Brenes et al. (2014), Reinert (2008) and López et al. (2014) show that innovations to differentiate products produce better returns than to efforts reduce costs or industrializing production.
were the most important impediment to increased productivity. In agriculture, as in the wider economy, market failure in the form of the lack of appropriability justifies government intervention to provide the public infrastructure necessary to enable productivity growth.

There are also important additional constraints in the agricultural sector resulting from under-investment the control of pests and diseases, also caused by the inability of the investor to appropriate the social return. The expansion of agricultural production to serve new markets requires pest and disease control, as well as internationally-recognized certification to confirm that they meet required hygiene standards. Surveys conducted by the World Bank (2009) and the FAO (2011) agree that shortcomings in the system for control of pests and diseases represents a major constraint on the industry’s ability to lift production and exports of crops. Meeting standards requires not only control of pests and diseases, but also upgrading production methods to conform to regulations and international standards. For example, meat processing facilities (including slaughterhouses and transport processes) lack a system for certification of Hazard Analysis and Critical Control Points (HACCP), as do poultry production facilities, despite a system of formal inspections.

**Government failure in agriculture**

Recent IDB research highlights major impediments arising from government failure in the agricultural sector.

a) **High cost of investment: price and availability of finance.** As noted above (Section 2.1) government failure, in the form of poor fiscal discipline in the past that has left a legacy of high public debt, contributes to the high cost and low availability of finance in the economy as a whole. For the agricultural sector, with its additional risks, high interest rates make the cost of investment prohibitive for many potential investors, while still-weak property rights sustain problems of access to credits, particularly for small farmers.

b) **Low returns to investment: taxes, trade preferences, price controls and land rights.** The most important aspects of government failure are the taxes, trade preferences and price controls that have served to disincentivize investment and innovation in agriculture by reducing returns. As noted in Section 2.2.2 above, Belize’s import taxes were intended to offer protection to domestic producers, with the agricultural sector particularly favored with high tariffs, reflecting CARICOM policy: the crude average duty on agricultural products (at CIF values) is 20.5% for agricultural products, compared with 9.3% for non-agricultural goods, with trade-weighted average rates of 23.5% and 13.6% respectively. But despite these preferential rates, Foster and Valdés (2014), in a detailed study of the impact of trade taxes and licenses on the agricultural sector, reach the stark conclusion that import duties are not only ineffective in terms of protection but also, when combined with the added cost that tariffs impose on agricultural producers who need to import inputs, the overall effect on the competitiveness of the agricultural sector is negative: the opposite of the stated policy objective. This finding is consistent with a famous study by García García (1981) cited by Martin and Manzano (2010) which finds that trade taxes that are intended to protect agriculture can actually reduce the
competitiveness of agricultural exports. Worse, the types of agricultural producers that face the greatest disadvantage as a result of the trade tax and licensing regime are those attempting to develop non-traditional and higher value-added products: precisely the sort of activity that the government’s overall growth strategy aims to promote.

Trade preferences for access to export markets enjoyed for so long by traditional export products in their traditional markets, as Martin and Manzano (2010) note, also inherently present a major disincentive to export diversification as they create distortions in favor of traditionals. That is, they prevent a ‘level playing field’ in which resources would be allocated through the price mechanism to the most efficient use. More broadly, the many ‘tax expenditures’ in Belize (that is, tax exemption, which have the same effect on fiscal balances as expenditures) generally tend to favor more politically-influential actors, which also tend to be established and relatively large producers of traditional products, at the expense of new entrants and relatively small producers, who tend to be less able to successfully lobby for preferences.

In addition, Belize still retains price controls for food products, including sugar and some staples (including rice and beans). Such efforts to protect consumers provide incentives for illicit diversion of supplies from the formal to informal sectors. Moreover, as pointed out by Foster and Valdés (2014), to the extent that they succeed in keeping prices below market levels, they disincentivize investment and so reduce supply in the long run. Both these negative effects, often revealed in shortages in domestic markets, tend to worsen over time.
3.2.2 Policy appropriateness

Problem diagnosis and policy approach

The three questions listed in Section 1 can be used for an assessment of the government of Belize’s PDPs for agriculture. The discussion above would seem to answer the first, ‘Is there a plausible market or government failure that has been diagnosed to justify the policy?’

Some of the market and government failures affecting agriculture are the same ones that affect the economy as a whole, and the horizontal measures that have been discussed earlier, in Section 2, aim to respond to them. For example, the sector has been a beneficiary of initiatives such as Small Business Development Centre and efforts to encourage microfinance, and the operations of the National Bank of Belize, Beltraide, SBDC and the MNRA. The development of the land registry has also been of critical importance for the sector. The Department of Lands and Surveys (see Section 2 above) has now registered almost all agricultural land in Corozal and Orange Walk Districts, giving them well-defined property rights (OVE, 2014), but the job is still unfinished in other areas. In addition, the constraints that particularly apply to agriculture, described above, would justify PDPs designed to overcome the problems of market failure (the cost and availability of financing, inadequate infrastructure and other public inputs caused by lack of appropriability, information gaps and ‘self-disclosure’ needs) and government failure (distortions and burdens created by tax and licensing systems, price controls and uncertain land rights).

The current government’s policy for agriculture refers to all these policy objectives, although the diagnosis is not presented in terms of market or government failure. The broad approach is described within the Horizon 2030 strategy, with some more specific measures included in the Medium-Term Development Strategy (MTDS) and Belize Rural Area-based Development Strategy. In terms of policy priorities, the Horizon 2030 retained a previous commitment to provide assistance to small farmers and support cooperatives, and introduced some changes, but introduced greater emphasis on the need to improve land rights, control contraband and reform the tax regime. The MTDS includes further discussion of the need for tax reform, and includes more reference to increasing investment in agriculture training colleges, facilitating access to affordable insurance to protect farmers from potential losses generated by natural disasters, improving management of the domestic market for agricultural produce (including control of contraband imports and corruption in customs), supporting the establishment of farmers markets, and increasing access to finance for farmers through subsidies and the creation of a dedicated bank for farmers. The Belize Rural Area-based Development Strategy has been more specifically aimed at local-level rural development, involving the coordination of efforts between different private actors and the public sector.

Policy assessment

Such statements of policy intentions alone do not answer the second question, which requires an assessment of the extent to which the proposed remedies are a good match for the diagnosis. Indeed, the long list of objectives and interventions would appear to present a difficulty in terms
of matching the diagnosis to remedies, because of a lack of a clear distinction between ‘binding’ constraints and other challenges, which means that policy targets are not clearly prioritised. As Haussman, Kingler and Velasco (2005) observe, a lack of clearly defined strategic priorities can hamper policy efficiency. To assess the extent to which this has hampered the effectiveness and efficiency of policy in terms of the core objectives, it is necessary to examine the extent to which specific measures respond to the diagnosed constraints.

For this analysis (as for the analysis of horizontal PDPs above), the array of initiatives for agriculture can be categorized as ‘public inputs’ or ‘market interventions’, which present different kinds of challenges in terms of matching remedies to the diagnosed problems.

(i) Agricultural PDPs: public inputs

Box 3 lists government measures for the agriculture sector that can be described as public inputs.

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Box 3. PDPs in agriculture: public inputs

- **Financing and support for innovation among small farmers** is provided by a range of initiatives. An Agro-processing Multi-service Incubator Facility (MIF, supported by the Republic of China) provides training as well as technical assistance to increase the variety of agro-based processed products on the local markets, improve the quality of local agro-based processed products, increase the number of SMEs involved in the processing of agricultural commodities and contribute to improve incomes and livelihood of producers and processors. The Agriculture Service Program, (ASP, funded by the IDB and Inter-American Institute for Cooperation in Agriculture, IICA), also funds agricultural innovation and provides training, as does the Agricultural Development Management and Operational Strategy (ADMOS, 2007), which uses demonstration farms. The Belize Rural Development Program (financed by the EU), has provided micro-grants, infrastructure and training centers for small farmers.

- **Technical assistance** has also been provided by the National Agriculture Extension Service Program, which delivers training and information for small farmers, as well as seeds, agro-inputs and construction materials, and by the Horticulture Crop Development, Rice Seed Production, Agro-Processing Project, and Information and Communication Technology projects, supported by the Republic of China. Beltraide (with EU support) has established an Agriculture Marketing Intelligence System (MIS) to deliver information on local and international markets to inform investment decisions, and the Agriculture Service Program²⁰ (ASP, majority financed by the IDB) enhances the capacity of the Belize Agricultural Health Authority (BAHA, first created in 1999 with the support of international agencies to manage

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²⁰ US$ 1.1 million to improve plant health system, US$ 1.4 million to improve animal health system, US$ 0.85 million to strengthen the Quarantine Inspection System and US$ 0.1 million to improve the management of the Agricultural Health and Food Safety Services. Main actions are the implementation of a Surveillance System, the establishment of a Pest Risk Analyses Unit, a revision of the Phytosanitary Certification System, and the strengthening of the veterinary drug and animal feed control unit. The program also includes enhancement of food safety inspection and certification capacities through an Integrated Food Control System and upgrades of the diagnostic capacity of the Food Laboratory.
A further program to improve sanitary and phytosanitary measures (supported by the IICA and EU) provides advice on legislation, coordination mechanisms and capacity building.

- Of the programs aimed at particular products, the Banana Support Program (BSP) and the Sugar Accompanying Measures (AMS) have received the most funds, with generous financing from the EU. They aim to assist adaptation to the loss of preferences in the EU market by boosting competitiveness and supporting diversification in affected regions. The AMS allocated most of its €46 million budget to rehabilitate the “Sugar Belt” road network, and has also provided credits for planting alternative crops, raising productivity, and research and development. The Banana Support Program (supported by an EU grant of €27 million) has enabled the industry-wide adoption of disease protection measures and the provision of training and advice, new irrigation systems and improved plant stock. Cattle farming has received the assistance of the National Livestock Production Program, under which Central Farm Livestock Stations have been providing improved genetics, while the EU Agriculture Enterprise Development for Rural Belize Project has brought improvements in livestock feeding and the Cattle Sweep Project (50% financed by the EU for its first three years) tests livestock for brucellosis and tuberculosis, with an ear-tagging traceability system and vaccination program.

- **Diversification** into cacao production has also been supported with state inputs, to control disease (partly through the selection of resistant varieties), improve production and quality, improve organizational capacity, find markets, and develop branding, supported by the IDB and Fomin. Consultancy services on ‘value chain analysis and industry strategy development for Belizean cacao’ have been supported by a grant from the Caribbean Aid for Trade and Regional Integration Trust Fund (CARTFund). Government assistance, with international support, is also being provided to support the organic certification of products such as hot peppers and ginger, to earn the organic premium.

These policy measures appear to respond to the sector’s constraints outlined above, but that does not mean that they are necessarily effective or efficient. Objective and full assessment of effectiveness in terms of the impact on investment, output, yields or exports is not possible due to data limitations. The available government statistics show that the relative decline of the agricultural sector’s share of national income appears to have halted over the past three years (Chart 4), while output of some important export products, particularly sugar and citrus has disappointed (Chart 5), but the data collection is known to be unreliable and incomplete. In responses to surveys, both the private sector and international organizations frequently cite the

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21 BAHA’s remit includes epidemiological surveillance and the identification; control and eradication of pests and diseases; registration and approval of drugs; issuance of import and export permits; field inspections and veterinary services; inspection and quarantine of plant and animals entering Belize; and safety inspections and certifications for all food processing facilities. Its Board of Directors includes representatives from both the GoB and the private sector and two thirds of its resources come from fees charged for its services.

22 The BSP also included a rural development program, with investments intended to increase health and education coverage of the population in banana producing areas, and financing electrification of villages.

23 Institutional Strengthening of The Toledo Cocoa Growers Association Project.
lack of information as one of the obstacles to effective decision-making (see, for example, SELA 2013 and MAF and FAO, 2011).24

Chart 4. Agriculture: contribution to GDP and export earnings, 1990-2013

![Agriculture's contribution to GDP and export earnings (% of total)](chart.png)

Source: Central Bank of Belize.

Chart 5. Agricultural output, selected products.

Five-year averages, 1990-2013

![Agricultural output indices, selected products, 5-year averages](chart2.png)

Source: Central Bank of Belize.

Studies of the sector highlight persistent problems relating to transport infrastructure, as well as information gaps that continue to hamper quality certifications and the adoption of appropriate technologies, and a lack of effective support for innovation in the sector. Specific weaknesses are identified. The OECD/WTO (2011) finds that further legislation and resources were needed for BAHA to deal with issues of diseases prevention and traceability of export goods and to comply with its mandate in the areas of agricultural health and food safety; Martínez (2012) argues that insufficient human and physical capital and financial resources limit the agency’s surveillance and inspection activity and the operations of the diagnosis laboratory, with some tests (eg. cocoa) having to be conducted abroad; Harrison and Castellanos (2011) discover several structural problems with Beltraide’s Agriculture Marketing Intelligence System (MIS), which needs to be

24 The MAF & FAO survey found that only the largest and most organized farmers’ organizations (cocoa, banana, citrus and sugar cane) had effective monitoring and evaluation systems.
updated and improved to collect more information, and faces inevitable staff turnover and resource cuts during budgetary restricted periods that affect its continuity and ability to manage the traceability registry; and the BCCI (2013) concludes that the BMDC is not only inefficient, but also impedes efforts to innovate in the case of rice.

That said, some studies have also found that specific public input PDPs in the agricultural sector have brought some measurable improvements. In the case of animal and plant health, results have been rigorously assessed (for example by the ICCA in 2006 and 2007, and World Organization for Animal Health in 2008), clear progress has been reported (see Bisang et al., 2014). BAHA has emerged as a particularly effective and efficient agency.\(^2\) Here, policy interventions benefit from the shared interests of public and private organizations and a pre-existing institutional and productive network. These conditions have allowed the size of the public input to be restrained, with the private sector assuming its share of the burden to reflect the benefits it derived. In the case of the Belize Agricultural Health Authority (BAHA), the government has provided a subsidy and legal framework, but most of the cost is covered by fees from farmers, even though Martínez (2012) finds persistent reluctance among some farmers to contribute to finance the services. Other successes have been the Banana Support Program, which has been credited with increasing the industry’s competitiveness, enabling it to increase its exports to the EU over a period when banana exports to the bloc from most of the other Caribbean countries declined; programs to improve genetics and feeding, which have led to an overall growth in the sector; the establishment of the MIS, which is regarded an important first step in improving access to market information; and efforts to increase value-added through certification of processes, quality or sanitary standards, such as the Cattle Sweep Program and fair-trade certifications in sugar and cocoa.

These partial assessments and observations suggest that the answer to the third question – ‘Are institutional capabilities sufficiently strong to design and carry out a policy as intended?’ – is mixed.

The institutional apparatus for the implementation of agriculture PDPs includes a large number of government organizations, creating a clear risk of duplication of effort and overlap of functions. The Ministry of Natural Resources and Agriculture (MNRA) is responsible for policy towards the agriculture and livestock sectors through its Agriculture Department, and for the land registry, the management of public land and natural resources, and oversight of the BAHA. However, the MoTI, through Beltraide and SBDC and the MoFED, are also responsible for coordinating policies that benefit agriculture producers, and different schemes are managed by the Rural Development Department of the Ministry of Labor, Local Governments, Rural Development, NEMO and Immigration as well as the Ministry of Human Development, Social Transformation and Poverty Alleviation. For some agencies, poverty alleviation rather than productive development is the

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\(^2\) The leader of the IICA-EU project launched in August 2013 to improve sanitary and phytosanitary measures in the Caribbean stated that Belize is the only Country within CARIFORUM that has a system as effective as BAHA, and the project team and are aiming to adopt its model of operations as part of their efforts to coordinate agricultural health and food safety (http://www.guardian.bz/index.php?option=com_content&id=7365:opening-new-markets-of-trade-for-belize).
priority. There is also overlap between the responsibilities of the Ministry of Health, which evaluates and certifies the sanitary conditions of food processing facilities, and the functions of BAHA. Coordination problems have resulted in duplication of efforts, mainly between the Food Safety Department and the Animal Health Department and Ministry of Health, all of which carry out inspections on food processing facilities and food products sold in Belize. A study by FAO (2011) finds that, although actions have been individually successful, their ‘collective impact’ has been weakened by problems of coordination, lowering returns to spending.

It is notable that many of these programs have been developed with the financial and management support of international partners. Indeed, the budget allocated to the MAF (of around 2.7% of total public expenditures, in line with the average for the Central American region) is dwarfed by the contributions of international donors. EU assistance alone in 2007-11 was (£90 million, BZ$216 million), including the two most significant PDPs in agriculture, designed to increase competitiveness of sugar and bananas. This amount is almost double MAF’s total budget in the period. In a study of donor activities in Belize, Pratt (IDB, 2013) describes nine official international organizations that have been providing significant support for the development of agriculture in Belize: apart from the EU, she lists the Central American Bank of Economic Integration (CABEI), Caribbean Development Bank (CDB), UN Food and Agriculture organization (FAO, with over 65 projects since 2000), the Inter-American Development Bank (IDB), International Fund for Agricultural Development (IFAD), Taipei-China, Petrocaribe, and the World Bank/International Finance Corporation. This list is not exhaustive: the Republic of China, the Inter-American Institute for Cooperation in Agriculture (IICA), the Caribbean Agricultural Research and Development Institute (CARDI), Bolivarian Alternative for Americas (ALBA), IFAD and CDB and other official agencies and non-government agencies are also active in Belize’s agriculture sector. These international agencies have brought valuable expertise and institutional support, but they may also create a risk of overlapping functions, detracting from the efficiency of overall policy design.

(ii) Agricultural PDPs: market interventions

An assessment of market intervention PDPs for agriculture appear to support the observation by Crespi et al concerning the risks of policy capture, particularly for ‘vertical’ market interventions.

The current government inherited a highly distortionary system of market interventions in agriculture, including exceptionally high and variable customs duties, a complex and burdensome process of import licensing, food price controls that create shortages and encourage informal and black markets, and exemptions within the domestic tax system that favor those with political influence. As noted in section 2, the current government’s efforts have brought some progress in

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26 Mogues et al. (2012) find that the average share of public spending on the agricultural sector in Latin America and the Caribbean region is 1.7%, much lower than the share in Asia (5.9%), Sub-Saharan Africa (4.4%), Eastern Europe and Central Asia (2.8%) and Middle East and North Africa (2.5%).

27 IDB Belize Development Assistance and Coordination Report, Adrienne Pratt (Consultant), October 2013

28 Use of the phrase “Chinese Taipei” or Taipei China does not in any way reflect a position by the Bank or any of its member countries regarding issues of national sovereignty or diplomatic recognition.
this area, but it has been weak. The combined impact of the persistence of the government failure arising from these interventions is carefully and persuasively evaluated in two IDB reports, Valdés and Foster (2013) and Foster and Valdés (2014). In the second report, the authors survey the current situation regarding market interventions in the agricultural sector and their impact. Their observations are included in Box 4.

**Box 4. PDPs in agriculture: market interventions**

- **Import duties** on agricultural goods have been reduced, but effective rates remain high relative to other countries in the region, and continue to be used as an instrument of protection that is ‘burdened by wide discretion, with a highly dispersed level of tariffs and para-tariffs.’
- **The import licensing system** is still complex, and together with inspections and the environmental tax and sales tax, continues to impose costs on all agricultural producers. Even the well-connected face the burdensome mechanics of the import process for inputs.
- **Price controls** remain in place, and continue to compound the harm to incentives for agricultural producers, create shortages and encourage black markets.
- **The Belize Marketing Development Corporation** (BMDC, created in 1949 to assist in the production, preparation and marketing of produce) continues to concentrate on privileged importation and distribution of commodities, bringing no net benefit to the agricultural sector whilst serving to squeeze out private competition.

Taken together, these inherited market interventions disadvantage domestic producers relative to importers. Foster and Valdés (2014) show that generally the effects of tariffs and licenses ‘fluctuated between positive protection and dis-protection’ because domestic producers face inflated costs of production, but in 2011-2013 the overall effect has been the latter, except in the case of poultry sector. They also demonstrate that the interventions damage agricultural exports, because ‘high protection for import-competing activities... reduce the margins on, and therefore relative incentives for, production for exports’ because they represent an ‘implicit tax’ on inputs (both imported and domestically – produced). Therefore, ‘over the long run, this trade strategy tends to reduce investment and innovations in the export-oriented sector of Belize’s agriculture’. The report notes that small-scale producers are particularly badly affected by the burden of import licenses, and by bottlenecks that impede the import essential of raw materials, while powerful interest groups benefit from exemptions from domestic taxes. Moreover, domestic consumers suffer a ‘real income loss’ from protectionist policies because they raise food prices.
3.2.3 PDPs for agriculture: findings and policy implications

The analysis here has highlighted a sharp distinction between the performance of government policy on agriculture between PDPs involving public inputs and those categorized as market interventions.

In general, Belize’s public input PDPs for agriculture are justified as they seek to tackle constraints that have been identified by targeting specific market failures. The paucity of reliable data makes evaluation difficult, and this restricts the capacity to monitor progress and develop efficient policies. More data, and more systematic evaluation, would help the authorities improve policy performance. It would also make it possible to effectively encourage efficiency improvements, building on the successes. Policies such as those recommended by Rodrik (2008) could be used to reward the most efficient agencies (in Belize’s case, an obvious case would be the BAHA) and thus generate incentives for others. The collection and dissemination of more data, for example on crop strains and yields, could also possibly improve outcomes by facilitating decision-making in the private sector.

There also remains much to be done to reduce the costs of investment and increase returns by further improving access to finance, transport infrastructure, information and knowledge (on techniques, technologies and markets), and animal and plant health, and encouraging innovation and the development of new, higher value, niche products. Policy coordination needs to be improved, with a clearer strategy for public inputs, as suggested by Compete Caribbean (2012).

In the case of market interventions, major problems of government failure have been acknowledged by some government officials but the progress of policies to correct these problems has been weak. Although the government has indicated a willingness to engage in discussions and the preparation of proposals for reform, policy has been timid and inadequate. As a result, severe distortions and disincentives to productive investment persist.

In the light of their findings, Foster and Valdés (2014) offer some clear recommendations: the government should aim to lower the level, and dispersion, of tariff rates to reduce uncertainty, cut import costs and raise returns, with particular benefits for small-scale processing for export. However, they also note that their recommendations ‘would, of course, present a challenge in political terms’, which indicates an acknowledgement of the real ‘binding constraint’ on economic policy: political resistance. Reform of the system of taxes, licenses and price controls would, as they observe, ‘reduce tax revenue, raise prices for some goods, and have redistributive effects (with losers as well as winners) between different producers in the short term.’ The government’s ability to take on the inevitable opposition will require not only a strong political will, but also enormous political skill and favorable conditions in terms of a parliamentary majority and sufficient economic growth to provide sufficient fiscal resources to be able to offer adequate temporary compensatory mechanisms to compensate losers. But without progress in this area, growth and diversification of the agricultural sector will continue to be held back despite benefits derived from public inputs.
3.3 PDPs for tourism

3.3.1 The policy challenge: objectives and diagnosis

The justification for PDPs for tourism is that, although the sector has been performing strongly – tourist arrivals have been increasing in recent years (outperforming the average for the Caribbean region in 2010-14, with investment in the sector accounting for almost a quarter of the total capital investment in 2013) – the rate of growth is considered to be below the industry’s potential relative to the country’s resource endowments. While earnings as a percentage of GDP is relatively high (ranking 8th out of 22 Caribbean countries), the number of tourist per inhabitant remains among the lowest (ranking 24th out of 30).

The need to ensure effective policy to stimulate improved performance in the sector arises from its importance for the economy as a whole. According to official figures, tourism directly accounts for 13.5% of GDP and 12% of employment, and its indirect contribution has been estimated at 37% of GDP and one-third of employment. In 2013 annual spending by tourists, of US$331 million, represented 32% of total exports of goods and services.

The overall objective of government policy for tourism is to boost growth of arrivals and earnings, and to do this, the sector needs to diversify its markets, upgrade its product, improve marketing, and increase capacity for the high season and attract more visitors in the low season. At present, more than 60 per cent of overnight visitors come from the US (with Canada accounting for a further nine per cent, and the whole of Europe for 11 percent), suggesting that other markets are under-tapped. New markets would help to reduce the degree of seasonality and thus more fully use the country’s assets, improving efficiency and providing more stable employment as well as increasing total earnings. The average length of stay in Belize is 7 nights, below the main competitors. This is in part due to a high degree of reliance on prepaid packages sold by overseas travel agencies, which currently account for almost one quarter of overnight tourists. Such visitors not only tend to stay for shorter periods but also leave only around 25-35% of spending on accommodation and tours in the domestic economy (Nuenninghoff et al., 2013).

The tourism sector is particularly sensitive to the natural environment. Therefore, to achieve ‘sustainable’ development, policy needs to include environmental protection. Belize’s industry is already heavily dependent on its ‘ecotourism’ assets (natural parks, caves, wildlife sanctuaries and marine, dependent on natural assets including the Barrier Reef Reserve System, the Blue Hole Marine Reserve and the Chiquibul Caves System). A survey by the Belize Tourism Board (BTB) of the activities that tourists engage in (see Chart 6) confirms the importance of natural endowments.

Chart 6: survey of tourist activities
Some of the market and government failures faced by tourism, to which policy needs to respond, are shared with other sectors, but the sector also has important specific challenges.

1. Market failure in tourism

High cost of investment. For domestic investors, high bank spreads serve as a barrier to investment, although for international investors the cost of finance is less of a constraint. However, for all investors, the cost of finance is influenced by the degree of risk, and in tourism these arise from over-dependence on a single market, macroeconomic instability, and the Caribbean climate, as well as additional and growing threats arising from climate change.

The cost of investment also includes the effort involved in acquiring the information necessary to innovate. Mc Nish and Granada (2013) highlight the information gaps that prevent Belize’s tourist sector from identify market opportunities or meet international standards. This constraint is compounded by the fact that the sector is dominated by small, often family-run businesses (Gray and Conroy, 2011), which lack familiarity with the international market that large foreign companies enjoy. More than 70% of hotels have less than 10 rooms, and around half of the rated accommodations are 2 stars or less (Jessen et al., 2013). According to a 2012 survey (Europraxis, 2013) of 231 hotels, only 33% would meet minimum international standards.

Low returns to investment. The inadequacy of transport services is a major constraint on the tourism sector’s prospects for growth and diversification. With few international flight connections and bad connecting flight schedules, Belize is at a clear disadvantage compared with regional competitors, particularly in relation to its ability to attract visitors from countries other than the US. The country’s two main airports have capacity constraints, although investments in the pipeline should relieve these: a major improvement project has begun at the Philip Goldson International Airport near Belize City, the port of entry for 70% of non-cruise tourists, where capacity has become over-stretched at peak times; and a new privately owned international airport in Placencia will be soon operating, with a runway long enough for the largest existing commercial airplanes, as well as a casino and other facilities aimed at high-end tourism. The road network current provides limited access from neighboring countries, and domestic roads need to

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29 According to IMF estimates, Belize has an annual probability of 17.2% of suffering a hurricane, only inferior to that of the Bahamas and Jamaica in the Caribbean (IMF, 2013b).
be improved to allow tourists to reach remote nature parks and reserves, and build resilience to threats from climate change.\textsuperscript{30}

There is also persistent pressure on the government from cruise companies demanding increased capacity for cruise arrivals, as the existing docking facilities are fully stretched. This pressure highlights the need for the government to establish clear priorities for development of the sector, to balance the benefits of development with potential negative externalities – a type of market failure, in which private returns impose external costs – from some types of tourist activity that may result in reduced returns to investment for the sector as a whole. Such externalities are particularly significant in the case of tourism. Policy for the sector also encompasses regulations and planning controls to restrain the development of environmentally damaging infrastructure, settlements and other industries, as described by Nuenninghoff et al. (2013). In the case of the cruise subsector, which accounts for around 70\% of all arrivals but contributes only 14\% of total direct earnings (with spending per head of only around 7\% of the amount per head of overnight visitors) and an even smaller portion of total earnings when local multipliers are taken into account,\textsuperscript{31} expansion creates externalities that may jeopardize environmental assets.

Tourist operators and Lindauer (2013) also suggest that a lack of adequately skilled labor hampers the efficient functioning of hotels and therefore reduces investment returns.

2. Government failure in tourism

**High cost of investment.** The government failures that contribute to the cost of finance for tourism investments do not appear to have been as great a problem in tourism as in other sectors, although smaller operators, and micro-businesses providing complementary goods and services to the industry, may encounter difficulties. A more significant government failure contributing to the cost of investment in tourism is the risk associated with policy uncertainty. Unresolved debates over strategic priorities can therefore damage the sector. One of these concerns whether or not to permit offshore oil exploitation, with potential negative effects on the barrier reef, as well as uncertainties over the status of other protected areas (eg. the Chiquibul forest).

**Low returns.** The main complaint of private sector representatives (BTIA, BHA) is that a high tax burden reduces returns to investment, and is a major discouragement to the growth of the industry.\textsuperscript{32} Tourist enterprises are exempt from the General Sales Tax (GST) but instead pay the Hotel and Tourist Accommodation tax which, operators complain, has no provision for deducting taxes on inputs, inflating the cost of investments by 37.5\% (Rider, 2012). The sector’s international competitiveness is also disadvantaged by trade taxes, which increase the costs of imported inputs

\textsuperscript{30} In this respect, the GoB, through the Belize Social Investment Fund (BSIF) and the participation of the Ministry of Works and Transport (MWT) and the MNRA, is preparing a project designed to contribute to strengthening the resilience of critical infrastructure to natural hazards and the anticipated impacts of climate variability through targeted retrofitting, rehabilitation and reconstruction activities. A comprehensive cross-sectoral climate resilience investment plan is expected to be the projects’ output.

\textsuperscript{31} For example, ‘Cruise Tourism in Belize: Perceptions of Economic, Social and Environmental Impact’ prepared by the Center on Ecotourism and Sustainable Development, Washington DC, August 2006.

\textsuperscript{32} Private tourism sector’s opinion is that the GoB is suffocating the sector which most income generates for the Belizean economy.
for the sector, and by a 2011 Income Tax Department ruling that extended business tax liability to include service charges (non-compulsory payments that go directly to the employee).

In contrast with these complaints that the tax burden is too high, Seidl et al. (2014) focus on distortions within the sector arising from taxes that are too low. In particular, they argue that the cruise ship passenger tax fails to cover the cost of services provided by the government to the industry (including infrastructure and police protection), amounting to a hidden subsidy that favors cruise tourism – which also imposes externalities on the rest of the industry – relative to overnight tourism. They also find that fees to enter archaeological sites are too low, failing to cover the cost of adequate preservation, and that this similarly results in a cost to the industry as a whole, as it results in the deterioration of one of its important assets.

Concern over the depletion of the environmental assets on which the long-term returns of the sector depends has also focused on problems with the system of land tenure and land use planning. Though improvements have been made to the land registry in recent years (see above), shortcomings still exist, not only creating uncertainty that discourages investment but also reducing the authorities’ powers to protect environmentally sensitive sites. Weak land use planning and regulation increases vulnerability to environmental damage, landscape deterioration, beach erosion and navigational safety hazards due to coasts cluttered with piers and jetties.
3.3.2 Policy appropriateness

Problem diagnosis and policy approach

In answer to the first question for assessing the appropriateness of policy – ‘Is there a plausible market failure that has been diagnosed to justify the policy? – the discussion above indicates that there are some clear cases of market – and government – failure that might justify vertical PDPs for tourism that could improve prospects for the sector’s diversification and growth.

The government’s policy statements refer to these justifications. The national tourism strategy is set out in a National Sustainable Tourism Master Plan for Belize 2030 (NSTMP), approved by Cabinet in 2012, sets out its policy approach. The NSTMP’s policy targets reflect important features of the strategy. The number of overnight visitors is intended to grow by an annual average of 3.8% over the next decade and a half. This compares with 6.1% in 2010-13, suggesting that the objective is to achieve steady growth, rather than aim for sudden expansion. The number of visitor nights stayed is expected to rise more quickly (by an annual average of 4.9%), reversing a declining trend (with an annual reduction of -3.0% in 2010-12) reflecting an intention to shift the emphasis of policy to a focus on aggregate arrivals to a different type of holiday experience, involving longer stays. Similarly, the 7.7% target for the average annual increase in nominal tourism expenditures is more modest than recent experience (8.4% in 2003-13; 16.8% in 2010-13) but nonetheless indicates that policy is orientated to increasing the amount spent per visitor, by increasing both the length of stay and the quality of the offer. In recognition of the relative net benefits of overnight tourism relative to cruise arrivals, the target annual growth rate for cruise tourism is lower than that for overnight stayers, at 4.8%.

The NSTMP also highlights the need for sustainability approach, with a balance between the three pillars of sustainable development: social accountability, environmental conservation and economic prosperity. Developments require environmental and social impact assessments that address resource management and land use allocation issues, to provide social and environmental safeguards and identify pro-poor mechanisms to link vulnerable groups to the tourism value chain. The strategy also envisages the creation of “Go Green” incentives to businesses, schools and society for, as an example, recycling products.

Policy assessment

The answer to the second question – ‘Is the alleged policy remedy – whether it entails alleviating the failure or redressing its impact – a good match for the diagnosis’ requires evaluation of the effectiveness and efficiency of the measures adopted. As with the analysis of horizontal and vertical agricultural PDPs in the preceding discussion, this question is tackled first in relation to ‘public input’ PDPs, and then ‘market intervention’ PDPs.

(i) Tourism PDPs: public inputs

According to CTO definition, sustainable tourism development means the optimal use of social, natural, cultural and financial resources for national development on an equitable and self-sustaining basis to provide a unique visitor experience and improved quality of life through partnerships among governments, the private sector and communities.
Public input PDPs for tourism are listed in Box 5.

<table>
<thead>
<tr>
<th>Box 5. PDPs in tourism: public inputs</th>
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<tr>
<td><strong>To diversify the tourist offer:</strong> State agencies are tasked with supporting the development of new tourist facilities in six priority categories, each of which will involve a distinct program of research, development and marketing:</td>
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<tr>
<td>(i) Cultural tourism (heritage and living culture). Plans include the development of a National Museum of Anthropology in San Ignacio town; the ‘Integral Development of Mayan Sites’; the development of traditional agricultural and other products and festivities for tourism.</td>
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<tr>
<td>(ii) Nature-based tourism (eco-tourism, adventure). Tasks include the establishment of ‘Ecotourism &amp; Adventure Activity Centers’ and ‘Ecotourism &amp; Adventure Routes’ (to link nature based tourism sites), and improving infrastructure, services and facilities.</td>
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<td>(iii) Sun and beach resorts. A ‘Pristine Beaches’ program will involve public investment in the development of infrastructure at a set of beach sites to attract private investors, together with environmental management by relevant state agencies to ensure conservation and safety.</td>
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<tr>
<td>(iv) Cruise tourism. Public authorities will support the development and maintenance of the Belize City and Port Loyola cruise areas, and construction of a Riversdale Pocket Cruise Terminal for small cruise vessels.</td>
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<tr>
<td>(v) Nautical tourism. This is currently a relatively small sector. Public investment will contribute to the development of a network of marinas and sailing clubs.</td>
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<tr>
<td>(vi) Leisure and entertainment (shops, leisure facilities and other value added services). Government institutions will work on the design and master plan for the development of specific areas, and search for new investors.</td>
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Medical and educational tourism are not included in the list, although feasibility studies are to be carried out, with the possibility of state support for pilot projects.

**To stimulate improvements in quality:** The Belize Bureau of Standards (BBS) has established standards for accommodation and tour guides and operators, and a system of Integrated Tourism Quality Management is being developed, including constant monitoring of the service delivery, including standards of accommodation and food, hygiene and safety.

**To support marketing:** The government is to conduct a Tourism Positioning Management exercise, and establish a Tourism Observatory for Market Intelligence. It also plans to develop an international marketing strategy, including innovative branding and the use of new technologies, and establish a representation network in source countries.

**To develop skills:** The Belize Tourist Board (BTB) assesses institutions and curricula for vocational training and certification and tourism management, and provides education and training, including the creation of a Hospitality Polytechnic Institute. The government is also examining how tourism education might be more closely integrated into school curricula.

**To improve land use policy.** The NSTMP has sought to establish clear planning guidelines for local authorities to promote development priorities in each area: urban regeneration in the Central Coast Belize; environmental protection in the Northern Islands and the Belize Reef development;
tourism expansion in targeted zones in Northern, Western and Southern Belize; and new developments subject to tight environmental constraints in South Eastern Coast Belize.

**Infrastructure Improvement:** Plans to improve transport (roads, highways, international airports, sea ports and piers) and other infrastructure services (water treatment, waste management, telecommunications and banking services). Support for the development of renewable energy is mentioned, although no budget is identified.

These public inputs, which are broadly consistent the recommendations of a concept paper on a strategic plan on tourism services in the CARICOM Single Market and Economy (Miller, 2009), can all be seen as responses to market failure. Some aim to address deficiencies in the supply of public goods, including infrastructure and marketing information, some solve coordination problems or enable self-discovery, some control negative externalities, and others respond to problems of asymmetric information.\(^{34}\) And in terms of outcomes, the sector has produced relatively strong growth since the NSTMP was launched. However, neither consistency with identified market and government failures, nor the positive performance, are evidence that the PDPs for tourism have been either the most effective and efficient response to the constraints. The answer to the question of whether the policy remedies are a good match for the diagnosis requires a full assessment of not only whether the policies have produced positive results, but also whether they have done so at the lowest possible cost.

Such an assessment has not been systematically conducted, although the government has sought to incorporate mechanisms to promote efficiency within the strategy, with the establishment of priorities among the programs – with culture and nature-based tourism development at the top of the list – and a requirement that each program should fully report on planned costs and components. The strategy also calls for the creation of a Project Implementation Manual (PIM) with a results framework containing strategic and macro-programs indicators, and a risk analysis section which would identify risk levels as well as possible mitigation measures. Such precautions are wise, although their results will depend on the capacity for implementation and monitoring.

A further uncertainty in relation to the efficiency of public input PDPs concerns the question of whether the spending by the state is necessary, or merely serves as a subsidy, or rent, for private investors who would have had adequate returns without the government support. Where the benefits of an investment accrue to private investors, an efficient policy should ensure that their contribution reflects this, but the outcome of negotiations between stage agencies and private beneficiaries may favor rent-seekers in the private sector if they enjoy a stronger bargaining position. This is often the case when governments are trying to attract investment from internationally mobile companies, whose demands for public investment in airports, cruise ports, training and marketing should be met only if the benefits of specific investments are likely to be shared by the industry as a whole, and particularly by potential investors seeking to diversify the sector. In cases where the beneficiaries are a relatively narrow groups of enterprises, the case for

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\(^{34}\) Added objectives exceed the number of policies as some PDPs could aim to address more than one market failure.
insisting that the bulk of cost of the investments are borne by the private sector is particularly strong.

The effectiveness and efficiency of public input PDPs are related to the third question: ‘Are institutional capabilities sufficiently strong to design and carry out a policy as intended?’

As in the case of agriculture, the tourist sector is the focus of an active strategy including many public inputs, which involves a number of institutions. The overall responsibility lies with the Ministry of Tourism and Culture (MTC), which oversees policy development, regulation, oversight and enforcement. The MTC delegates responsibility for planning and implementation of policy to the Belize Tourism Board (BTB), a statutory body within the MTC but with a strategic partnership with the private sector. As a quasi-governmental entity, the BTB has autonomy over the use of its revenues, which include grants awarded by the National Assembly, payments for advertisements, and money collected under its regulatory authority. A long list of other ministries and government entities with responsibilities related to the development of tourism, including:

- the MoTI (mainly through Beltraide, which works with BTB on promotion, marketing and incentives, attracting FDI and business development support);
- MFFSD through the NEAC and the Coastal Zone Management Authority (responsible for environmental sustainability standards, climate change related issues, asset management and conservation efforts and uses of land and marine resources, critical for the tourism policy framework);
- The National Institute of Culture and History, in partnership with local university scholars and anthropologists (in charge of safeguard mechanisms according to the NSTMP);
- MoFED (primarily budget issues, donor assistance coordination and pro-poor and ethnic group policies);
- the Ministry of Works and Transport (infrastructure, fostering the destination integral development of tourism assets);
- the Ministry of Energy, Science and Technology and Public Utilities (MESTPU, with respect to energy related policies);
- MNRA (particularly through the Land and Surveys Department);
- the Ministry of Education, Youth and Sports (labor force skills)
- the National Emergency Management Organization (NEMO)
- local governments.

35 The BTB is required to draw up annual timelines and budgets with a Performance Monitoring Matrix and detailed policy plans for product development, marketing and public relations; promote private investment; vet the standards of facilities; and levy tariffs, fees and charges.

36 The BTBs income comes from accommodation taxes (80%), the cruise passenger head tax (14%), with the remainder from a conservation fee collected from every departing visitor, and its share of concession fees, recreation related license fees, cruise ship passenger fees, and permit fees collected in conjunction with the Protected Areas Conservation Trust (PACT). According to law, BTB shall, not later than six months from the end of each year, submit to the Minister a report containing an account of its transactions throughout the preceding year and a statement of its audited accounts, and the auditor’s report shall be presented to both Houses of Parliament and published in the Gazette, but the authors of this study were unable to gain access to these documents.
The above list highlights an important problem with the institutional and regulatory framework of the tourism sector: a lack of a coordinating body with sufficient authority to ensure policy consistency. An IDB study (2014) of concluded that the system needs to be overhauled to create the capacity to meet the NSTMP’s objectives. The MTC and BTB were found to lack the power to influence the policies and projects of other agencies, such as the MWT and the Department of the Environment (DOE), that affect tourism, suggesting a need for stronger NSTMP coordination across government. Another difficulty is that the BTB’s resources are overstretched, as has become apparent from its recent deficits. BTB spending on marketing swallows 65% of its budget, leaving insufficient funds to fulfill all its other functions. MTC capacity is also limited, with a technical staff of just three people insufficient to adequately monitor of compliance and ensure enforcement of regulations, and the National Environmental Appraisal Committee (NEAC, under the Department of the Environment within the MFFSD) has been unable to effectively fulfill all its functions in terms of reviewing the Environmental Impact Assessment required by the Environmental Protection Act.

The NSTMP identifies institutional weaknesses, and proposes a new Ministerial Council to be chaired by the Prime Minister. This would include representatives from a new National Sustainable Tourism Trust Fund (NSTTF) and the Hospitality Polytechnic Institute. The PM would serve to mediate conflicts between different state entities, while the NSTTF would seek partnership with the private sector to fund high-impact growth investments in emerging tourism regions. Responding to evidence that land titling and local planning arrangements have not been sufficiently robust to prevent developments that damage the assets on which tourism depends, it has also been proposed that the Ministerial Council would oversee the work of a new agency to be in charge of land titling. To correct other weaknesses in the institutional arrangements for the management of tourism, the program also proposes the establishment of a new National Tourism Disaster and Crisis Management Committee (TDCMC), charged with mitigating losses from natural disasters through centralized allocation of resources, coordination of evacuation procedures and business continuity planning), and a Belize Cruise Negotiation and Destination Management Committee, to negotiate with international cruise companies on behalf of the government. The launching of a National Tourism Safety and Security Plan is also proposed. However, these proposals have not yet been implemented.

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37 BTB had a high rotation of Directors (4 since 2008) in part, apparently, due to its unbalanced accounts.
38 BTB spending on marketing, of US$ 4.6 million in 2011, is still dwarfed by that of its competitors. In the same year, the Dominican Republic spent US$ 70 million. Resource constraints mean that it can only run tourism visitor centers in Belize City and San Pedro, and cannot provide systematic support for SMEs, or invest in basic and transport infrastructure to develop new tourism facilities and services.
39 According to Diedrich (2010, cited in Nuenninghoff et al., 2013), for example, though the Cruise Tourism Policy clearly states a limit of eight tourists per marine tour guide when visiting marine protected areas (MPAs), surveys at local level reveal that this standard is rarely upheld due to the failure to enforce the government’s restrictions on cruise tourism growth.
40 The most prominent private sector organization in the sector is the Belize Tourism Industry Association (BTIA), an umbrella organization that includes the Belize Hotels Association (BHA), as well as the Belize National Tour Operator Association (BNTOA) the Belize Eco-Tourism Association (BETA), the Belize National Tour Guide Association (BNTGA), and the Association of Cruise Service Providers (ACSP). Both the BTIA and BHA receive government subventions for marketing Belize abroad (US$ 200,000 a quarter) and to support administration costs (US$ 15,000 a quarter).
Tourism PDPs: market interventions

Miller (2009) notes that across the Caribbean there is widespread use of market interventions for tourism, in the form of investment incentives to encourage tourism development, particularly hotel development. In the case of Belize, investors benefit from incentives, but are at the same time disadvantaged by the hotel accommodation tax.

Box 7. PDPs in tourism: market interventions

Fiscal incentives Program (FIP). Almost 90% of approved incentives under this program apply to tourism projects. The Qualified Retired Persons (QRP) Incentive Program, which labels Belize as a retirement destination with the potential for investment, is a further indirect incentive to tourism as it induces retirees to purchase land or rent property.

Hotel Accommodation Tax. The government has been considering proposals to eliminate this special tax and require hotels instead to pay General Sales Tax. The private sector agrees that reform is needed, and perceives that this tax imposes an unfair tax burden on the sector, but the government is reluctant to introduce any reform that reduces its total tax take. There is therefore no consensus on the form that reform should take, and so far no concrete proposal has been prepared.

Customs duties. The authorities are also examining ways to improve competitiveness through possible reductions in customs duties on inputs for tourism services and reform the cascading business tax regime.

Tax evasion. Efforts made by the tax authorities to reduce the level of non-filers and delinquencies in the sector have brought some progress as a result of targeting the larger delinquencies. Further proposals have for improving compliance have been prepared but not yet implemented.

The complexities of the tax system for the tourist sector make it difficult to assess whether it faces a burden that reduces the country’s international competitiveness, or enjoys excessive indirect government subsidy. The answer is probably both, with some operators enjoying undue subsidy, while others struggle to survive as they face inflated import prices, burdensome compliance and high tax rates. Most importantly, the current system fails to create a level playing field, in which the most efficient, productive and innovative operators are incentivized to invest and expand, as is necessary for the development of an industry that will be sustainable in the long term. Instead, distortions persist, and in this context it is likely that the most powerful vested interests have secured themselves favorable treatment. While the authorities have identified major problems with the existing system, they have yet to develop a coherent strategy for overhauling it.

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41 According to the Retired Persons Incentive Act (1999, modified 2001), anyone 45 years and older (may be accompanied by dependents) from any country—including Belizeans who are returning to live in the country—having guaranteed incomes abroad for not less than US$2,000 a month to deposit in a local commercial bank, can be permitted to live in Belize—but cannot be employed, except for voluntary work. Incentives include the importation of a vehicle, one airplane, one boat and household goods at a duty free rate for the first year.
3.3.3  PDPs for tourism: findings and policy implications

Unlike agriculture, the tourist sector has been attracting strong investment and solid growth, outperforming its Caribbean peers in terms of expansion over the past five years. Nonetheless, the existence of market and government failures justifies the use of PDPs to help the sector to reach its full potential, in terms of both growth and sustainability.

Government policy, as set out in the NSTMP, clearly identifies priorities and objectives, providing a framework within which a large number of public inputs are offered to the industry. These provide an array of public inputs that aim to fill information gaps, and provide infrastructure and other complementary services to support planning, innovation, marketing, standards and training. While these are generally perceived to be effective, major challenges persist, and it is not clear whether the inputs are efficient. There remains a need to improve infrastructure, international marketing and connectivity, and the availability of information on markets and market segments for small operators to find ways to boost custom through effective marketing in new markets, raise quality and average spending per tourist, identify new niches and improve on the average length of stay.

Anecdotal evidence suggests that the government’s capacity to fulfill these functions efficiently is affected by weaknesses in the institutional framework. In some important areas, it lacks sufficient coordination and coherence to balance competing interests, particularly where developments generate environmental externalities, as in the case of cruise tourism and the implementation of planning guidelines. The government is aware of these challenges and, with the support of international agencies, has taken steps to diagnose the problems and design policies to improve efficiency and effectiveness. However, many of these remain in the pipeline.

As in the case of agriculture, the government faces both resource constraints and political hurdles in its efforts to improve policy efficiency. These difficulties are particularly challenging in the case of the design and implementation of market interventions to correct government failure. A clear example arises in its efforts to balance the demands of overnight and cruise tourism. Cruise companies have access to finance and markets that many of the domestic tourist enterprises lack, and are also in a strong bargaining position relative to the government as they are able to shift their custom to alternative destinations easily. These characteristics enabling them to wield influence over policy choices, tilting decision-making from conformity with strategic objectives. This is an example of a wider concern about the ability of the government to implement its sustainable tourism policy in the face of short-term political pressures.

In the context of these challenges, international cooperation can make an important difference to the effectiveness and efficiency of tourism PDPs. As a member of the Central American Tourism Integration Secretariat (SITCA), Central American Tourism Council (CCT) and Caribbean Tourism Organization (CTO), government of Belize officials have access to information that can increase its bargaining power in relation to international operators, and guide it on best practice in terms of environmental and social sustainability (as noted by Nueninghoff et al., 2013). International financial institutions, including the IDB, can also bring expertise as well as resources to support this
effort. This is already happening; the persistence of policy challenges suggests that it needs to continue.
4. Conclusions

Belize's economic growth over the past has been relatively strong, but it has decelerated in the last few years and fallen behind its neighbors. The cause of this slowdown has been a reduction in investment, which in turn has been the result of market and government failures that have made it expensive and difficult to finance investment, and damaged returns. The government of Belize has used both horizontal (economy-wide) and vertical (sector-specific) productive development policies in its attempts to correct or compensate for these problems, and stimulate investment and growth. This study has surveyed those policies, to consider (a) whether they are justified; (b) the evidence concerning their effectiveness and efficiency; and (c) the institutional constraints on effective policymaking.

An overview of horizontal PDPs (in Section 2) serves to highlight challenges faced by the government of Belize in terms of prioritizing policy objectives within the overall strategy, conducting adequate evaluation and monitoring of policy performance, and institutional capacity. These challenges apply to both public input PDPs and market interventions. In the case of public inputs, there is broad consensus on the diagnosis of the problems to be tackled by policy, and measures address these problems. However, weaknesses in terms of data collection and evaluation make it difficult to assess the efficacy and efficiency of such policies. These problems arise in part from resource constraints, but this only increases the urgency of the need for efficiency. In the case of market interventions, the current government inherited major difficulties in relation to the public debt and fiscal discipline, on which it has made significant progress. However, it has made little headway in correcting the major distortions arising from the high and widely dispersed rates of customs duties, complex system of trade licenses, obsolete price controls and burdensome and unfair domestic tax system. Reform of the tax system is needed urgently to prevent further entrenchment of distortions that will hamper Belize’s long-term economic growth prospects. This task should be a priority. Concerns over the impact of reform on government revenue may be justified, given the constraints on resources the limit the state’s ability to provide even the most essential services, but the more fundamental constraint on reform appears to be the political influence of entrenched vested interests, which have impeded progress in correcting government failure to date. Given that the government has indicated its interest in tackling these weaknesses, international donors need to coordinate efforts to provide technical support and encouragement.

In the case of Belize’s two leading economic sectors, agriculture and tourism (surveyed in Section 3), the constraints on investment for the economy as a whole are accompanied by specific sectoral conditions and market and government failures. The survey of these conditions, and PDPs used to tackle them, highlights implications for further policy priorities that need to be addressed.

For agriculture, specific sectoral constraints arise from vulnerability to additional risks from extreme weather, as well as the need to respond to changing international market conditions. Market failures arising from the nature of the sector compound problems with getting access to affordable finance, information gaps, pests and diseases, and the impact of taxes, licenses and
price controls. Some of the public input PDPs for agriculture appear to have been effective, having achieved significant improvements, particularly in the case of the control of pests and diseases. The available data are too patchy to allow systematic assessment of other public inputs, however, and evidence suggests that, although some of the implementing institutions have been exemplary, institutional capacity constraints have hampered overall progress. Many of the inputs have often been delivered with the help of international organizations, and this has helped to overcome technical and financial capacity constraints that arise from the small size of the Belize’s state. However, improved coordination between implementing agencies, clearer prioritization of policies and closer evaluation are required to ensure more efficient resource allocation. The government’s progress in implementing the market intervention PDPs that are clearly required to improve investment incentives and encourage diversification has been weak. These mainly involve policies to remove government failure that has become entrenched in the system of customs duties, licenses and price controls. Although the government has acknowledged this need, it has so far failed to make significant progress in this area. Without improvement in the system of taxes, licenses and price controls, investment, innovation and growth of the sector will remain inhibited. The need to comply with WTO rules (with the next deadline in December 2015) has stimulated policymakers to pay more urgent attention to the need for reform of agricultural taxes and licenses, providing a political opportunity for effective action. However, political obstacles to such policies, as well as to the removal of price controls, remain daunting.

In the case of tourism, the industry’s performance has been strong, and public input PDPs would appear to have contributed to these positive results by reducing the cost of investment and increasing its returns. The National Sustainable Tourism Master Plan (NSTMP) provides clear strategic policy guidelines and priorities, but assessment of the effectiveness and efficiency of these measures is difficult. In general they appear to be effective but the challenge is to ensure that they are efficient. This involves analysis of the appropriate subsidy required by the state to stimulate investment, to avoid unnecessary subsidy to rent-seeking private operators, both domestic and international. It also requires improvements in the coordination and monitoring of the implementation of the NSTMP, a process that should not only improve the efficiency of public input PDPs but strengthen the authorities’ ability to balance the need for development with adequate environmental protection: an essential determinant of the sector’s sustainability in the medium- long-term. In terms of market interventions, sector-specific policy has achieved some limited progress through efforts to tighten tax compliance, and there is awareness, on the part of government, tax authorities and the private sector, of the need for reform. While this might suggest agreement that further policy action in this area is urgent, there is no consensus on the nature of the action. Reform will therefore present a major political challenge, and the government is likely to face intense lobbying which, by its nature, will favor existing and large operators at the expense of smaller and more innovative enterprises. To strengthen its hand in implementing an efficient tax system that provides a level playing field and meets its strategic objectives for sustainable tourism, the government would benefit from encouraging a broad public debate on the issue, and drawing on the support of international organizations.
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