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PRIVATE SECTOR ASSESSMENT OF BELIZE



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Executive summary

The Private Sector Assessment Report (PSAR) provides a comprehensive overview of the private sector. It draws on both primary and secondary data sources. Primary data analyses were derived from interviews with key stakeholders from the domestic private and public sectors as well as interviews with regional and international agencies. A listing of the main stakeholders interviewed is documented in the original country reports¹. Secondary data were utilised to describe the state of the country at both the micro and macro levels. In addition to these specific elements of the research, the development of the PSAR was assisted by consultations organized under the Caribbean Growth Forum² (CGF).

The Belize PSAR evaluates the primary components of the productive sector, the key challenges that it faces, and potential emerging sectors, and finally provides policy recommendations for priority areas. The PSAR identifies improvements that are needed in the areas of access to finance, corporate taxation, technology and innovation, trade and foreign direct investment policies, infrastructure, education, and overall competitiveness. It places special emphasis on the role of public-private dialogue in addressing these challenges.

Elements supportive of a broad and systematic public-private dialogue are in their infancy in Belize, and represent a positive and relatively new feature of the country's economic and political landscape that has been initiated by the government. Important steps in this regard have been the convening of the first Business Forum in 2011, the establishment of the Economic Development Council and the subsequent appointment of a director of public- and private-sector dialogue in the Office of the Prime Minister in 2012 to establish a systematic and formal mechanism for public-private cooperation.

In 2000-11 Belize's private sector provided over 92% of national employment, and in 2004-11 it accounted on average for more than two-thirds of credit and four-fifths of consumption. A full assessment of the size and contribution to the economy of Belize's private sector is thwarted by poor data availability. Despite weak statistics, the available data also suggest that the private sector is dominated by micro, small and medium-sized enterprises (MSMEs), including in the tourism sector, which accounts for the bulk of employment and value added in the economy. MSMEs generate over 70% of private-sector employment and incomes and contribute significantly to GDP. In terms of agricultural output, it is estimated that MSMEs account for over 70% of the main export crops and an even higher percentage of domestic food crops

¹ The original reports can be found on Compete Caribbean's website: <https://www.competecaribbean.org>.

² The CGF is a facilitated methodology for public-private dialogue around issues central to private-sector development and growth. It brings a non-traditional approach to the greatest challenge currently faced by the region: creating sustainable and inclusive growth. The Forum also aims to facilitate an action-oriented dialogue around key policy reforms needed across three thematic areas: investment climate, skills and productivity and logistics and connectivity. The CGF is a joint initiative by the Compete Caribbean Program, the Inter-American Development Bank, the World Bank and the Caribbean Development Bank. It is supported by the Department of Foreign Affairs, Trade and Development Canada, the United Kingdom's Department for International Development, the Caribbean Community (CARICOM) Secretariat and the University of the West Indies.

The PSAR identifies a number of significant challenges that Belize faces in private-sector development (PSD). Improving access to finance and raising the skills level of the labour force through innovative strategies and actions are priorities. Additionally, corporate tax rates and administration, poor infrastructure and high import tariffs present further barriers to PSD. Improving the business climate would help to create an enabling environment for expansion into value-added activities in emerging and fast-growing sectors such as aquaculture, medical tourism, and service exports.

The priorities for PSD are clustered around the following issues: (1) articulating a vision and a durable framework for PSD, (2) improving the business climate for PSD, and (3) facilitating the expansion of fast-growing and emerging sectors. Systematic public-private collaboration, in the context of an agreed strategy that supports key traditional and emerging sectors and includes enhancement of the statistical database, is vital for future growth in Belize.

I. Private sector assessment

Background The broad national-development goals for Belize have been expressed in the context of the National Development Framework (2010-2030), also referred to as Horizon 2030. Horizon 2030 is the product of an extensive consultative process with stakeholders, including private-sector actors, involved in Belize's future development. However, the role of the private sector in achieving the agreed goals set out in Horizon 2030 has only recently been articulated in the context of the establishment of the Economic Development Council³. There is a perception in Belize's business community that the government's vision has not fully embraced a well-thought-out role for the private sector. In the view of private-sector stakeholders who were interviewed, the government has focused more strongly on pro-poor strategies than on pro-business policies. Yet pro-poor and pro-business goals are complementary, as Belize's experience in developing its tourism sector confirms. A stronger private sector and a clearly articulated policy for private-sector development (PSD) will help in addressing poverty and the macroeconomic challenges that Belize faces. Thus a major challenge for Belize is to establish a durable institutional framework for PSD and a lasting public-private partnership.

Macroeconomic overview Policymaking is complicated by Belize's vulnerability to fluctuations in international demand for its main commodity exports, as well as by its relatively narrow economic base and periodic disruptions caused by tropical storms and hurricanes. Risks to policy stability also include unpredictability and politicization of monetary and fiscal decisions.

Table 1: Belize public finances, 2007-13

(% of GDP)

	2007	2008	2009	2010	2011	2012	2013
Budget revenue	29.7	29.2	26.1	27.8	28.1	27.9	28.2
Budget expenditure	29.1	28.4	30.0	29.5	29.1	28.7	29.4
Budget balance	0.6	0.9	-3.9	-1.7	-1.1	-0.8	-1.2
Public debt	88.5	82.5	88.2	85.5	81.4	76.9	81.1

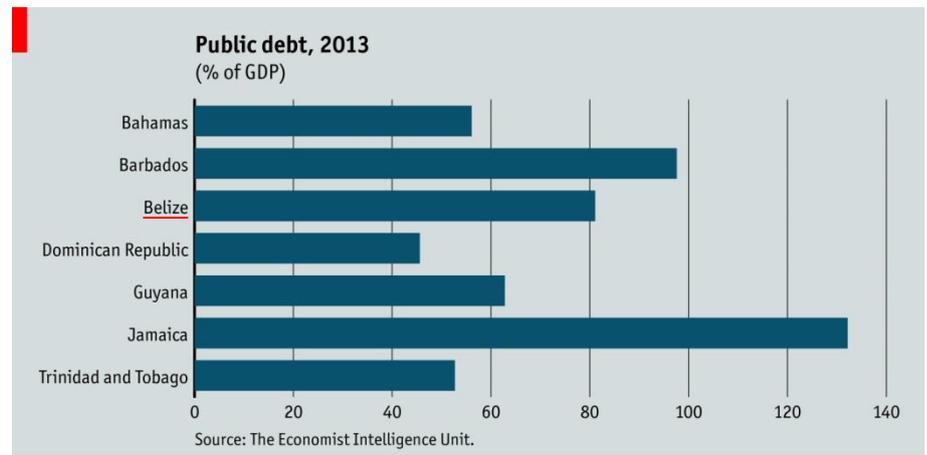
Source: Economist Intelligence Unit.

The conclusion in 2013 of debt restructuring on Belize's US\$547m "superbond" resulted in an extension of the bond's term to 2038 (from 2029 previously) and a lower interest rate that will reduce debt-service costs and ease pressure on the fiscal accounts. However, the breathing space thus afforded to the government will allow it to avoid implementing new austerity measures or major tax increases to reduce the fiscal deficit. Policy efforts will focus on improving management of the public finances and the public debt (see Figure 1). The Economist Intelligence Unit (EIU) expects the government to honour its pledge

³ Government projects to strengthen the Economic Development Council (EDC) and implement the EDC Action Plan, financed by Compete Caribbean, are directed towards goals and follow-up actions agreed through public-private consultation.

to avoid major new commercial borrowing and forecasts that total public debt as a proportion of GDP will remain stable at around 75%.

Figure 1



The EIU anticipates that the impetus for further fiscal austerity has waned, owing to pressure to agree to higher public-sector wage increases and to fulfil election promises. According to the Central Bank of Belize, external financing of the budget deficit in 2013 was equivalent to 5.3% of GDP, up from an average of 0.4% of GDP in 2010-12. The government has borrowed significant sums from PetroCaribe⁴, some of which has financed domestic projects, while the majority has so far been held as reserves. The authorities will remain dependent on limited multilateral and official bilateral sources of financing on concessional terms, and will seek to attract grants wherever possible. Monetary policy aims to maintain the Belize dollar's fixed peg to the US dollar—the exchange rate has stood at Bz\$2:US\$1 since 1987.

According to the EIU, monetary-transmission mechanisms will stay weak, and this may force the Central Bank of Belize to rely at times on more direct measures to control liquidity. A build-up of excess liquidity in 2012-14, which enabled commercial banks to rebuild reserve provisioning and reduce non-performing loan ratios, will reverse in the coming period, but this will not adversely affect capital adequacy ratios. Capital adequacy at commercial banks is expected to stay above the mandated minimum ratio of capital to risk assets of 9%. Domestic lending interest rates have fallen steadily since 2011, with the weighted average lending rate at commercial banks standing at 11%—admittedly still a high level—in March 2014. Excess liquidity in the market reflects investor risk aversion and the high cost of financing.

⁴ PetroCaribe is an oil alliance of Caribbean states with Venezuela to purchase oil on preferential terms.

Figure 2

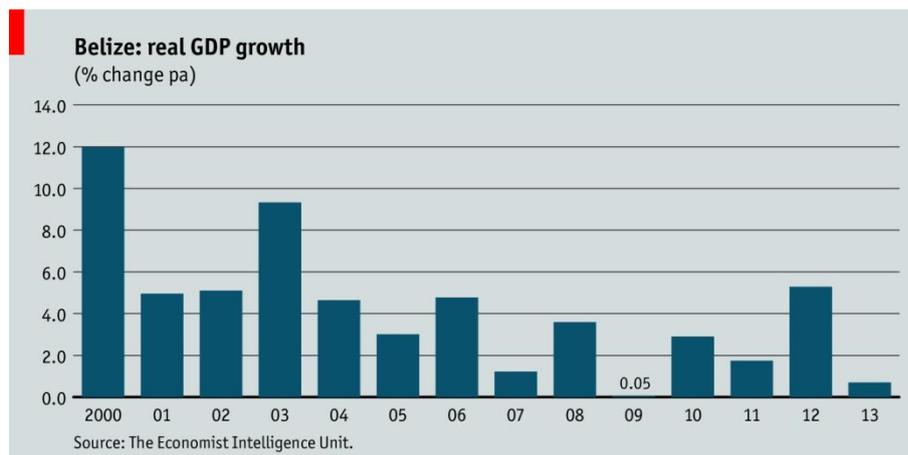
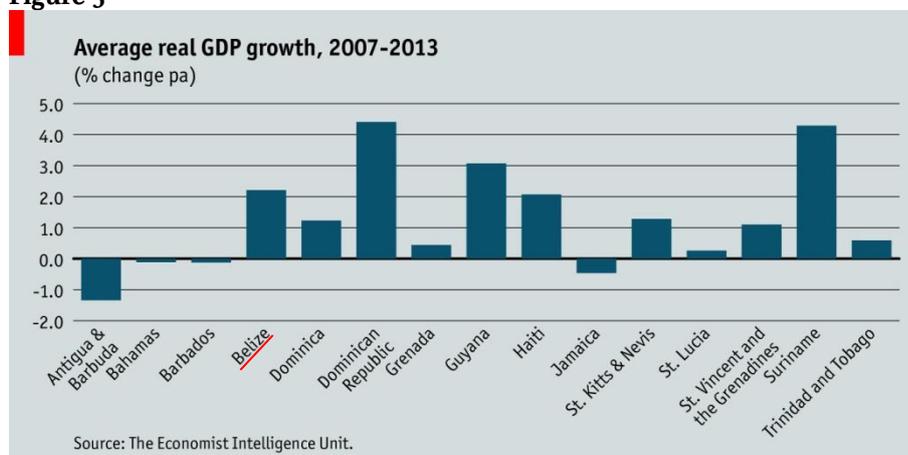


Figure 3



Real GDP growth averaged 5.4% annually in 2000-08 (see Figures 2 and 3). In 2009 growth slowed to just 0.3%, before recovering in 2010, when it accelerated to 3.1%. The economy then grew by 2.1% in 2011, 4% in 2012 and an estimated⁵ 0.7% in 2013. Economic growth will continue to depend on a recovery in external demand for goods and services, and particularly tourism (whose expansion is boosting investment in tourism-related infrastructure) and agricultural exports (notably citrus, sugar, seafood and bananas). GDP per head (at purchasing power parity exchange rates) has grown from US\$4,676 in 1995 to US\$5,912 in 2000 and an estimated US\$8,380 in 2013.

⁵ IMF estimate.

Figure 4

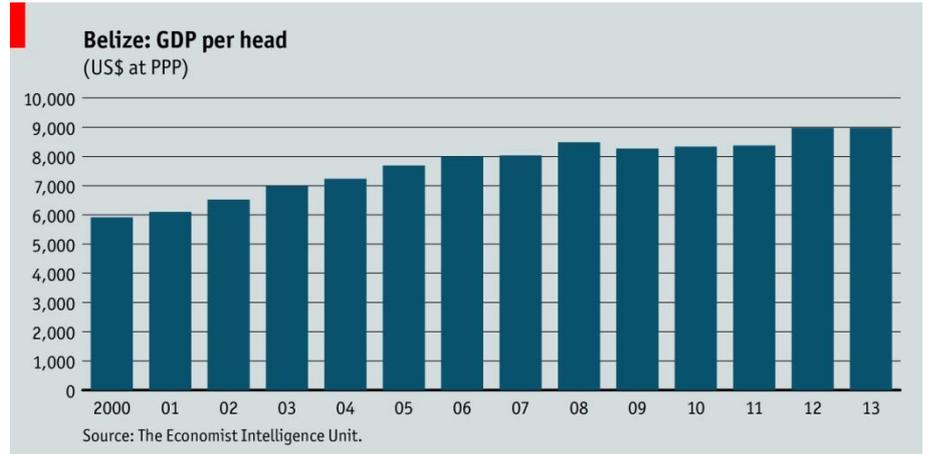


Figure 5

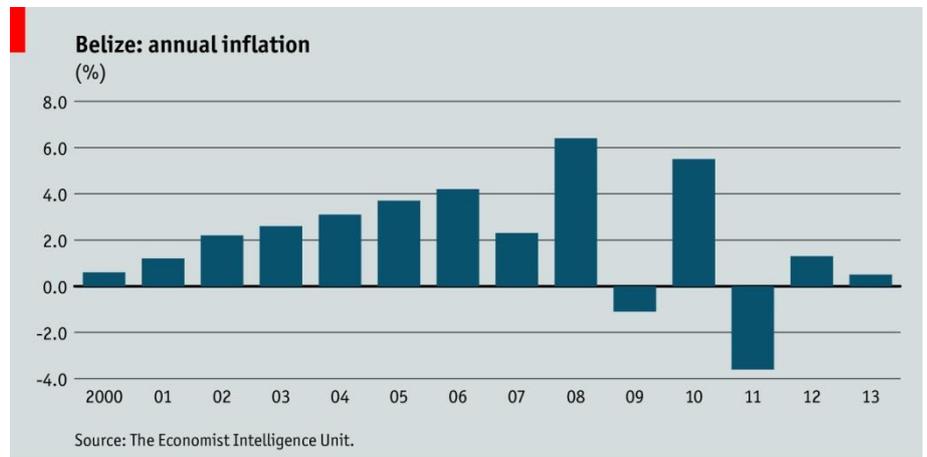
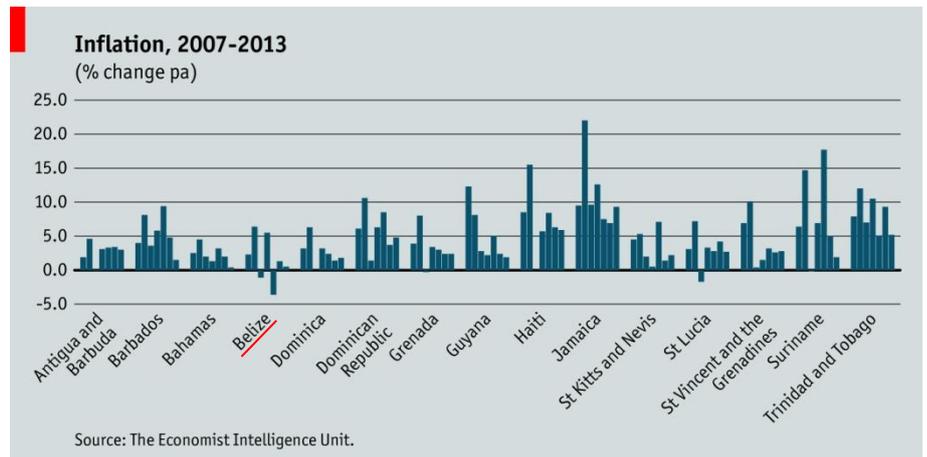


Figure 6



Annual inflation reached a recent peak of over 6% in 2008 and has varied significantly in the years since (see Figures 5 and 6). After prices contracted in 2011, price pressures were weak in 2012-13, largely reflecting lower costs of

imports⁶. Slower economic growth globally has dampened demand for fuel, curbing costs. This in turn has decreased the cost of imported fuel and in turn transport costs. The overall price level in Belize will continue to rise slowly during the next few years on the back of economic recovery and employment growth. However, the currency peg to the US dollar will keep inflation lower than in most other countries in the region.

In 2010 Belize was classified by the IMF as being among the group of highly open economies on the basis of exports and/or imports and/or total trade in goods and services as a percentage of GDP⁷. Belize is more open than the other highly open economies of Central America and the Caribbean region (see Table 2). Merchandise export growth averaged almost 8% a year in 2000-2011, as a result of a boost delivered to total exports by petroleum sales. However, the diversification of exports as a means of increasing economic growth—an important objective for Belize—remains a challenge, as it does for the country's Caribbean and Central American peers⁸. According to the IMF, weak export performance for oil and agricultural products combined with an increase in imports of fuel and electricity led to a widening of the current-account deficit, to 4.4% of GDP in 2013. Agricultural exports were constrained by the effects of extreme weather and disease. Meanwhile, oil output is in sharp decline owing to the exhaustion of producing wells and a lack of new discoveries.

The large and growing current-account deficit poses significant risks to the economy. According to the IMF⁹, continued expansionary fiscal policies (including public-sector wage increases) could boost domestic consumption and widen the current-account deficit. Financing the deficit could result in a significant decrease in the country's foreign-exchange reserves. The macroeconomic instability caused by this scenario could damage prospects for foreign investment, and in turn weaken overall economic expansion.

⁶ Central Bank of Belize, Annual Report 2013.

⁷ Belize: 2010 Article IV Consultation—Staff Report; Informational Annex; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Belize, January 2011.

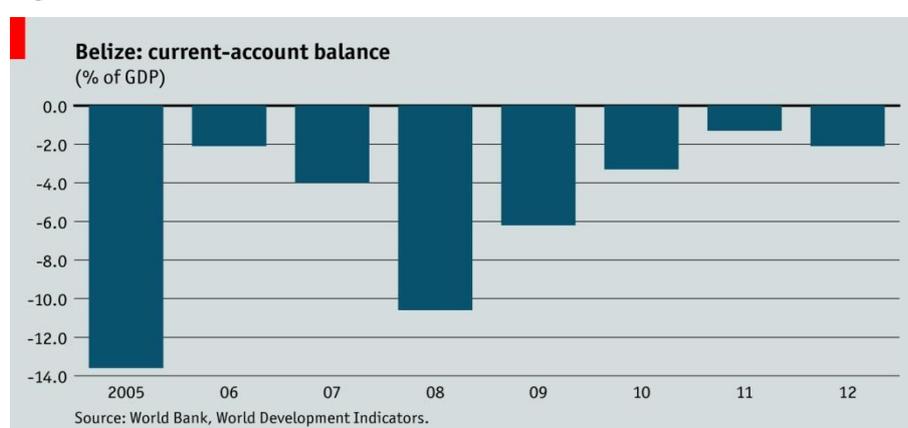
⁸ De La Cruz, Export Diversification and the Caribbean Basin Economic Recovery Act (CBERA), US International Trade Commission (September 2008).

⁹ IMF Executive Board Concludes 2014 Article IV Consultation with Belize.

Table 2: Exports of goods and services, (% of GDP)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Bahamas	44.6	45.2	44.7	46.7	46.0	39.9	40.9	43.6	44.8
Barbados	40.9	44.0	44.9	45.3	46.0	41.5	46.3	39.3	42.5
Belize	50.6	54.7	61.1	61.1	62.3	51.6	58.2	61.2	62.9*
Dominica	35.6	35.8	37.8	35.8	35.9	32.4	35.7	33.8	38.8
Dominican Republic	42.3	30.0	30.0	28.8	25.5	22.2	23.0	25.0	25.1
Grenada	33.0	21.3	23.0	24.9	23.0	22.6	21.8	23.7	24.1
Haiti	15.4	14.0	14.5	13.2	12.7	14.1	12.1	13.4	13.3
Jamaica	37.5	35.3	40.1	39.7	41.9	34.5	31.3	30.4	30.4
St. Kitts and Nevis	39.0	42.3	37.4	33.7	31.3	23.9	28.8	31.3	34.3
St. Lucia	54.1	57.8	43.2	39.9	45.3	46.1	50.2	43.2	44.7
St. Vincent and the Grenadines	35.3	36.4	34.7	31.0	30.2	28.5	26.9	27.5	27.6
Trinidad and Tobago	56.0	65.8	81.4	65.2	71.4	52.3	58.9	88.1	n/a

Sources: World Bank, World Development Indicators. *2012 data for Belize is from the Central Bank of Belize.

Figure 7

Belize faces a high structural unemployment rate, which exceeded 10% in 17 of the years between 1990 and 2011. Labour force participation meanwhile hovered around 60% from 2000 to 2008. Belize's shortage of skilled labour and technical personnel across all sectors is a significant and well-recognized obstacle to the country's economic growth. In this regard, the government has prioritised programmes to facilitate skills training based on the private sector's labour requirements.

Institutional effectiveness

Belize's strong democratic traditions and legally enshrined institutions are important assets for PSD. However, there is a widespread perception among public- and private-sector stakeholders alike that more could be done in terms of policy implementation, and there is a need to establish a level playing field for businesses in areas such as taxation, licensing, and other administrative requirements and incentives. In response to these concerns, the government has recently approved a review of the tax system aimed at identifying inefficiencies, gaps and bottlenecks, and has also introduced an electronic system to facilitate the objective and timely processing of applications for licences and import permits. Demonstrating respect for the rule of law and the enforcement of contracts will be important in enabling Belize to continue to attract local and foreign direct investment (FDI). Private-sector companies can

also contribute to an improved environment by conducting business in line with agreed international standards of transparency and disclosure. In this regard, the introduction of mediation is viewed as a positive step for Belize's judicial system.

With regard to institutions that have a role in fostering PSD, the current public-sector structure is relatively new and is still evolving. Appointments of new cabinet ministers and heads of government departments following the 2012 general election were intended to signal the government's commitment to public-private partnership; these changes included the addition of private-sector development to the remit of the newly formed Ministry of Trade, Investment Promotion, Private Sector Development and Consumer Protection. In addition, the Ministry of Finance and the Ministry of Economic Development were combined into a single body, thereby facilitating coordination of development planning and financing. Importantly, the prime minister, Dean Barrow, also appointed a private-sector liaison officer to strengthen public-private partnership.

The following list describes key institutions that will be instrumental in PSD in Belize and that are highlighted in the Priority Areas and Action Plan section of this report:

- The Business Forum, launched in November 2011, is a forum for systematic public-private dialogue. Hosted by the prime minister, it met in 2012 and 2014 and is expected to meet every six months in future, and also in advance of the consideration of the government's annual budget by the National Assembly (the legislature).
- In 2013 Belize launched a chapter of the Caribbean Growth Forum, with the prime minister giving the keynote address.
- The Economic Development Council (EDC)¹⁰ was established in November 2011 as a critical medium for the exchange of views and the sharing of information between the public and private sectors on matters affecting the business sector and its role in the economy.
- The prime minister has appointed a private-sector liaison officer to strengthen public-private partnership. The office headed by the private-sector liaison officer, which comes under the Office of the Prime Minister, also serves as the secretariat and executive director of the EDC. Under the project to strengthen the EDC, undertaken jointly by Belize's government and Compete Caribbean, this unit has now been expanded to include a policy analyst and an administrative assistant. The Ministry of Finance and Economic Development advises on the formulation and execution of financial policy, budget preparation, control and review, fiscal management, public-debt servicing, insurance and banking.
- The Belize Trade and Investment Development Service (BELTRAIDE) was established in 1997 as the Trade and Investment Promotion Service

¹⁰ The EDC comprises ten members—five private-sector entities, including the Belize Chamber of Commerce and Industry (BCCI) and the Belize Coalition of Service Providers, and five public-sector representatives—and is co-chaired by the chief executive officer of MoTI and the president of the BCCI.

to address Belize's loss of preferential markets for export. BELTRAIDE is tasked with identifying new export markets; it offers support for traditional exporters and advises the government on trade promotion.

- The Ministry of Trade, Investment Promotion, Private Sector Development and Consumer Protection (MoTI), established in 2012, is responsible for policy governing PSD and has also assumed responsibility for BELTRAIDE.
- The Belize Coalition of Service Providers was established to help stakeholders in the services sector to lobby for the creation of an enabling environment that would allow Belize's services sector to survive in a competitive global marketplace and to meet the challenges encountered in exporting its services.

Components of the productive sector

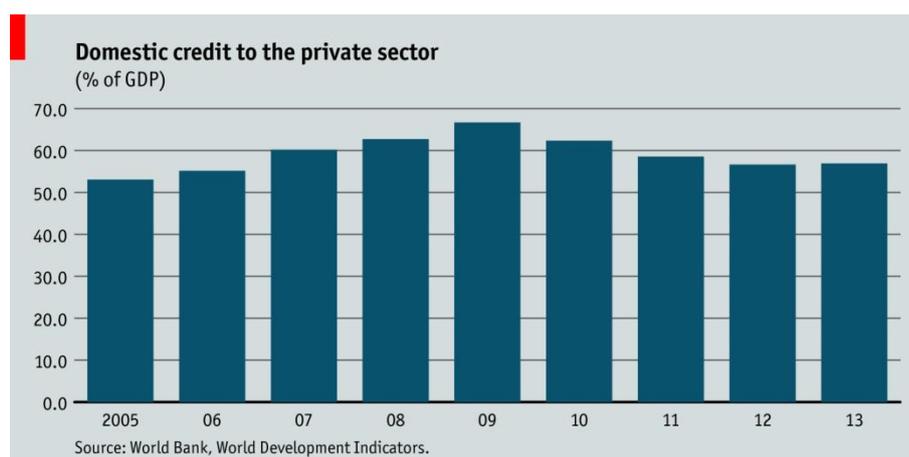
Overview of the sector

This section addresses the current state of the private sector in Belize and provides a broad overview of its major trends and primary components. A later section discusses potential emerging growth sectors.

Belize is a mixed economy with a large private sector. Whereas there is a fairly extensive database on the public sector since 1990, there is a dearth of comprehensive information and time-series data on Belize's private sector. An additional complication has been the lack of an official disclosure requirement for businesses, meaning that there is only limited information available on companies, as audited annual financial statements are not publicly available. This lack of disclosure has had adverse implications for risk assessment, the cost of finance and the identification of investment opportunities.

Assessing the size of Belize's private sector is important in evaluating its current and potential contribution to the overall economy. The size of the private sector can be measured in various ways, including by its shares of total consumption, investment, credit and employment. Based on these measures Belize's private sector is large, making up roughly two-thirds of the economy.

The private sector's share of total credit tends to exceed two-thirds of the total. Evidence suggests that crowding out of private-sector activity is not a major problem in Belize. Domestic credit extended to the private sector averaged about 60% of GDP in 2009-13 (see Figure 8). This figure is high compared with the average in the country's Caribbean peers, with the exception of Antigua and Barbuda and also Barbados. The excess liquidity in Belize's banking system suggests that the formal private sector is not constrained by a lack of available funds for lending, but rather by risk aversion on the part of lenders. Moreover, private foreign investors in Belize have access to credit through international channels, suggesting that this segment of the private sector is not overly constrained by current high domestic interest rates.

Figure 8

FDI flows into Belize tend to be large relative to domestic investments, and are generally channelled into capital-intensive activities¹¹. The preponderant share of FDI (at 30% of total inflows on average in 2001-11) has gone into the hotel and restaurant sector, while the next-largest share has been in financial services. Emerging areas for FDI appear to be real-estate activities and also mining and quarrying.

Table 3: Foreign investment inflows by sector
(BZ\$m)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture, Hunting, Forestry and Fishing	0.0	0.0	3.1	1.3	2.0	23.2	14.7	19.2	3.1	1.3	8.2	148.6	20.5
Mining and Quarrying	0.0	0.0	0.0	6.3	14.7	0.3	2.4	55.6	11.4	24.3	50.0	51.6	24.3
Manufacturing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Electricity, Gas and Water Supply	49.6	0.0	10.0	32.0	47.3	7.1	9.3	6.7	9.7	4.0	0.0	0.0	0.0
Construction	0.0	0.0	0.0	2.2	1.9	5.3	0.0	21.6	17.4	24.5	32.6	39.5	50.1
Trade and Repair	6.0	5.5	5.2	8.7	5.5	0.8	3.1	4.7	1.6	0.4	0.0	0.0	0.0
Hotels and Restaurants	29.6	9.4	19.3	49.1	113.2	92.5	93.7	120.0	35.7	33.3	44.2	50.2	62.7
Transport, Storage and Communications	0.0	0.0	8.6	78.1	65.4	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Intermediation	26.6	20.1	24.2	41.4	37.8	50.4	59.9	41.5	45.8	30.2	-3.9	-7.6	-14.0
Re-investment of Earnings	26.6	20.1	24.2	41.4	37.8	50.4	59.9	41.5	45.8	30.2	-16.2	-7.6	-14.0
Equity Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	12.3	0.0	0.0
Real Estate Activities	3.3	6.1	6.4	11.0	7.7	21.8	49.8	59.4	83.5	71.6	56.6	95.7	62.7
Computer and Related Companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Education	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health and Social Work	0.0	0.0	0.0	2.6	5.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	7.2	10.1	7.0	4.8	9.4	28.4	67.7	31.3	18.1	9.9	10.9	12.0	18.1
Total	122.3	51.1	83.8	237.6	310.2	233.2	300.6	360.1	226.2	199.5	198.5	390.0	224.4
Memorandum item:													
Tourism	29.6	9.4	19.3	49.1	113.2	92.5	93.7	120.0	35.7	33.3	44.2	50.2	62.7

Source: Central Bank of Belize.

In terms of the private sector's contribution to employment, there is no breakdown into public and private employment provided in the official labour-market statistics. Nevertheless, a calculation based on government employment

¹¹ Rowland, Durante and Martin, Belize (2012), p. 11.

data¹² and figures on the total labour force published by the Statistical Institute of Belize (SIB) suggest that the private sector employed 94% of the workforce on average in 2000-07. This share then declined to 92% by 2011, reflecting an increase in public-sector hiring: the average annual rate of growth in public-sector employment was about 17% in 2000-11, while growth in overall employment averaged only about 4% a year in the period.

Micro, small and medium-sized enterprises (MSMEs) are a fundamental part of a dynamic and healthy economy. A 2012 study published by the Inter-American Development Bank (IDB) outlining a policy for Belize's MSMEs indicates that the country's economy consists mainly of MSMEs and estimates that "MSMEs generate over 70% of private-sector employment and incomes and contribute significantly to GDP".¹³ In terms of agricultural output, it is estimated that MSMEs produce over 70% of the country's main export crops and an even higher percentage of its domestic food crops¹⁴.

Tourism and agriculture have been the main natural-resource-based activities and engines of economic growth in Belize since the late 1980s. The country's economy has undergone an impressive structural transformation from a mono economy based mainly on sugar production and exports to a more diversified and internationally integrated economy based on tourism, agriculture and (since 2006) oil production. However, diversification of output and exports has been only limited¹⁵.

The aggregate data available provide a snapshot of the distribution of employment across subsectors (see Figure 9). The statistics indicate that over 60% of the working labour force was employed in the services sector in 2005. However, since 2008 the share of services in GDP has declined, reflecting the impact of the global financial crisis and recession on the local tourism sector, as well as the discovery of oil and the start of production of this resource. Meanwhile, a rebound in agricultural output since 2008 has been the result of recovery following hurricanes and flooding, and of efforts to support agricultural output.

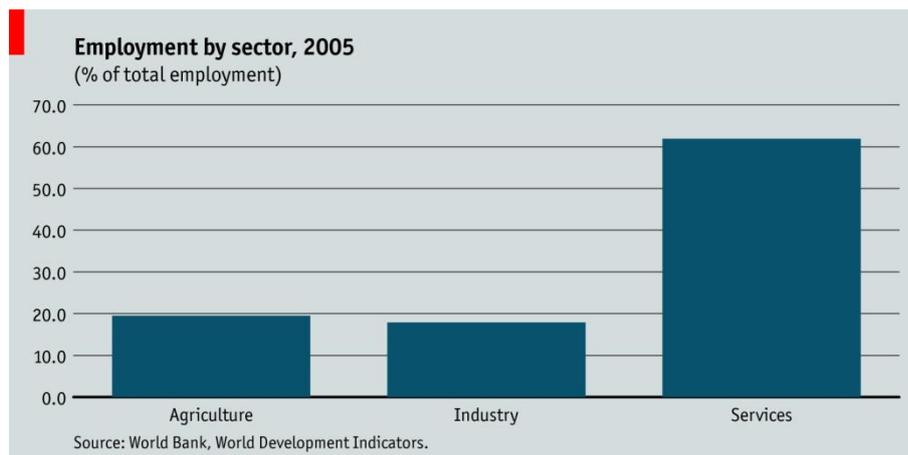
¹² Metzgen, Belize: Government Compensation and Employment, 1990-2010 (2011).

¹³ *Ibid.*, p. 10.

¹⁴ BELTRAIDE, MSME Policy and Strategy Report, March 2012

¹⁵ *Idem.*

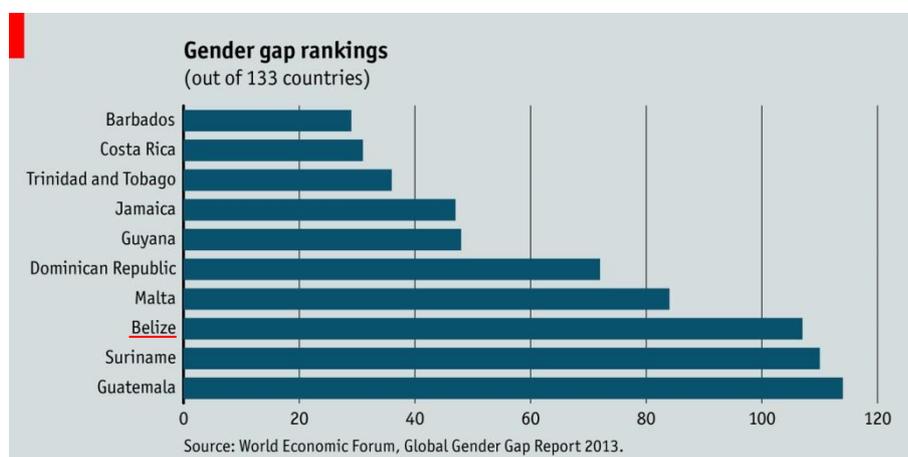
Figure 9



Gender in the private sector

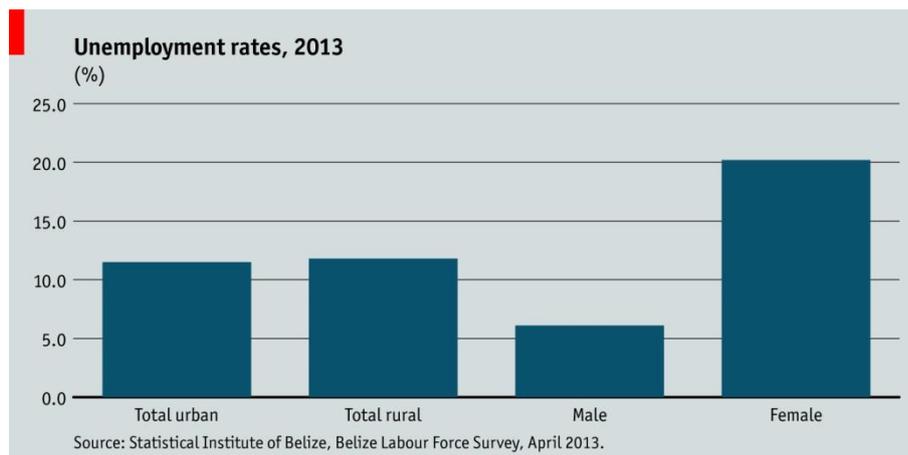
Although analysis of gender in the private sector is significantly constrained by poor data availability, Belize lags behind its peers on gender equality. Women’s share of national income remains far below that of men¹⁶. In the World Economic Forum’s Global Gender Gap Report 2013, Belize is ranked 107th out of 133 countries overall and 80th in the subindicator for economic participation (see Figure 10). Female participation in the labour force has increased substantially since 2002, rising by 10% to around 69%, but the unemployment rate among women remains more than twice that for men (see Figure 11). Belize’s labour force is relatively poorly educated, with around 29% of workers having received only a primary-level education and nearly 46% having had none. Of unemployed persons with no formal education, almost two-thirds (63.5%) are female.

Figure 10



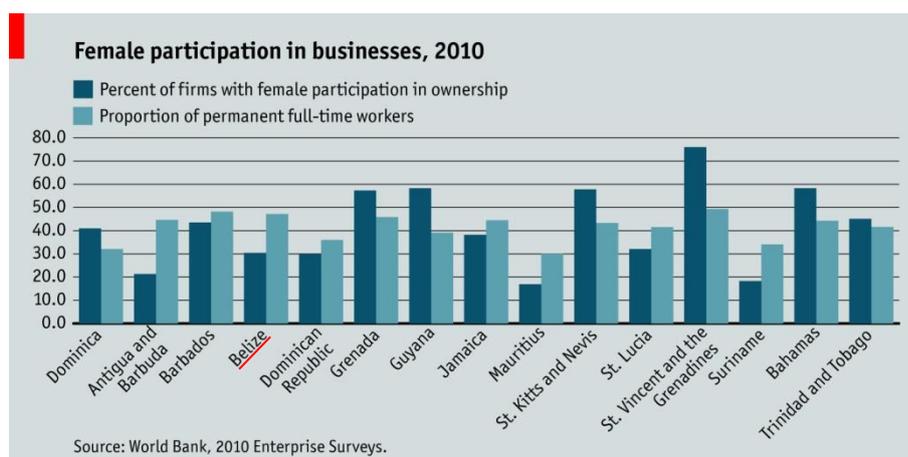
¹⁶ UN Development Programme, Country Programme Document for Belize (2007-2011).

Figure 11



Participation of women in the management of firms, as well as in full-time non-production positions, is higher in Belize than the averages for Latin America and the Caribbean and for all countries included in the Global Gender Gap report. However, the percentage of firms reporting female involvement in their ownership is around 10% lower than in countries in Latin America and the Caribbean. It is noteworthy that the proportion of firms with female participation in their ownership is higher in the services sector (at 34%) than in manufacturing (17.5%). In addition, the percentage of firms with female top managers is also much higher in services (at 30%) than in manufacturing (10%). Consistent with labour force statistics showing a high proportion of females employed in the services sector, the proportion of female permanent full-time workers is higher at surveyed firms in the services sector (at 53%) than at surveyed manufacturing firms (28%). Promotion of growth in the services sector could provide more opportunities for women, given the relatively high rate of employment of women in this sector (at 53%). This would include the expansion of the tourism sector into new markets such as educational tourism and medical tourism, as well as growth in other service industries, such as business-process outsourcing and financial services.

Figure 12



Environment

Belize serves as a leader in natural-resources management and environmental protection. This is evident from advances such as the establishment of the National Protected Areas System Plan and the Protected Areas Conservation Trust, and most recently from studies to modernize the legal and policy framework for the sustainable management of the country's forestry, coastal and marine resources. The National Protected Areas Policy and System Plan reflects the constitutional requirement for policies to protect the environment, and is founded on the need to ensure that biodiversity conservation becomes an integral part of national social and economic development. The guiding principle is the need to ensure that the contribution of the protected-areas system to national development and poverty alleviation is maximized.

An assessment of the ecosystem coverage of Belize's protected-areas system conducted in 2014 by Emil Cherrington estimated that most of the ecosystems within the protected-areas system had experienced increases in coverage, ranging from 0.7% in the case of lowland savannah to 86.2% in the case of open sea, while lowland broad-leaved forest, lowland pine forest and sub-montane broad-leaved forest had each experienced decreases in coverage of less than 1% (these decreases were due mainly to agricultural incursions into a few protected areas). Deforestation notwithstanding, it can be observed that Belize's national protected-areas system has so far been effective in protecting the country's ecosystems. In addition, during the past four years the system has increased its total area of coverage by 12.7%, to around 1.2m ha. As of mid-2014 about 35.8% of Belize's land territory was under protected status, up from 35.1% in early 2010.

Sustainable development in Belize is dependent not only safeguarding the country's natural assets, but also on investment and the promotion of a "green economy" that will safeguard the resource base that fuels national development.

Belize was ranked 88th out of 178 countries in the 2014 Environmental Performance Index compiled by Yale University of the US. The index provides a gauge of how close countries are to established environmental policy goals at national level. Belize performs significantly better in this respect than any other ranked country in the Central American region except Costa Rica. Its performance is well above average for the following indicators: general environmental health, maintaining ecosystem vitality, the effects of air pollution on the population, biodiversity and habitat, and agricultural and fisheries practices. The country also performs well relative to the comparator group on climate change; biodiversity and habitat; and agriculture (in terms of pesticide regulation and agricultural subsidies). However, Belize records below-average performances in the areas of wastewater treatment, the effects of water pollution on the population, and the change in the trend in carbon intensity

There is broad consensus in Belize that natural-resource management should be integrated into national planning, due to the importance of the environment to the country's economic growth. A National Growth and Poverty Reduction Strategy, developed in conjunction with the UN Development Programme, is expected to be completed by end-2014. Agriculture and tourism development are two of the four pillars of the government's growth strategy. According to

Meerman and Cherrington (2012), almost two-thirds of all Belize's agricultural land overlies limestone that is prone to desiccation¹⁷. In addition, almost 40% of agricultural land is in areas that are prone to low rainfall¹⁸. These facts suggest that a priority for the future is the review and reinvigoration of the national policy on protected areas. A challenge in addressing the problems of land degradation and drought will be to ensure that Belize continues to meet its commitment to maintaining its ecosystem services, and also its pledges to meet national and international biodiversity-conservation targets, while facilitating economic development.

Industry and agriculture

Belize produces and exports a very narrow range of primary commodities and goods with low value-added content. In 2013 the country's top two merchandise exports were mineral fuels and sugar, worth a combined US\$138m (see Table 4). By comparison, in 1995 the top two export earners had been sugar vegetable, fruit, nut and other food preparations, valued at US\$82.7m.

Table 4: Belize: top exports, 1995 and 2013

	US\$
1995	
Sugars and sugar confectionery	50,614,142
Vegetable, fruit, nut, etc. food preparations	31,935,928
Edible fruit, nuts, peel of citrus fruit, melons	22,801,954
Fish, crustaceans, molluscs, aquatic invertebrates	15,752,236
Articles of apparel, accessories, not knit or crochet	14,576,475
Mineral fuels, oils, distillation products, etc.	5,141,907
Tobacco and manufactured tobacco substitutes	2,864,610
Wood and articles of wood, wood charcoal	2,288,621
Edible vegetables and certain roots and tubers	2,204,519
Beverages, spirits and vinegar	1,907,078
2013	
Mineral fuels, mineral oils and products of their distillation	80,731,526.00
Sugars and sugar confectionery	57,584,510.00
Fish and crustaceans, molluscs and other aquatic invertebrates	56,482,276.00
Edible fruit and nuts	56,232,080.00
Preparations of vegetables, fruit, nuts or other parts of plants	54,712,673.00
Commodities not specified according to kind	46,748,533.00
Residues and waste from the food industries; prepared animal fodder	13,603,376.00
Edible vegetables and certain roots and tubers	8,248,342.00
Nuclear reactors, boilers, machinery and mechanical appliances	4,984,624.00
Electrical machinery and equipment and parts thereof	4,102,134.00

Source: UN Comtrade.

The analysis suggests that Belize has an export basket that needs to be diversified. It consists of products that are highly ubiquitous (that is, undifferentiated in the global market). By contrast, advanced countries have diversified export baskets containing a low proportion of high-ubiquity products. In this regard, Belize's export mix presents important challenges. The National Export Strategy validation process that is currently under way will

¹⁷ Meerman and Cherrington, Forest Cover and Deforestation in Belize, 2010-2012 (2012).

¹⁸ Meerman and Cherrington, Preliminary Survey of Land Degradation in Belize (2005).

provide an overarching framework for export development, and should result in specific recommendations for the expansion of Belize's productive and exporting capacity.

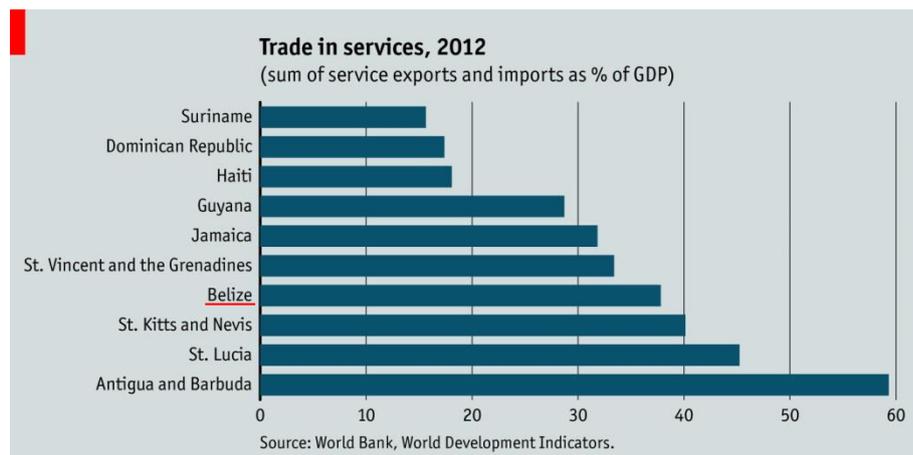
The Export Processing Zone (EPZ) and Free Zones Acts are a relatively new feature of Belize's industrial and export structure. The aim of EPZs is to "attract both local and foreign investment to boost production for export markets with a focus on manufactured goods and non-traditional agricultural products. An EPZ is classified as a non-customs territory of the host state, where export-oriented activities are undertaken in the manufacturing, processing, assembly and service sectors"¹⁹. The aim of CFZs is to develop manufacturing, processing, packaging, warehousing and distribution of goods and services. Merchandise warehoused in a CFZ may be sold free of duty wholesale or retail that can be directly sold to export markets. Both EPZs and CFZs provide jobs, attract local and foreign investment and generate revenue for the government. The Corozal Free Zone, which falls under the Free Zones Act of 2005, employs over 3,000 persons and contributes to the Government coffers through a social fee charge on the value of imports. This fee totalled approximately \$16 million in 2013 according to CFZ records²⁰. Exports from the zone consist mainly of wine, spirits, tobacco and food products manufactured abroad. However, legislation grants the 300-odd companies that operate in the Corozal Free Zone import- and export-duty exemptions, fiscal incentives and tax holidays, while their dividends are tax-exempt and they are not subject to trade licensing requirements as domestic firms are. Given the CFZ and EPZ sector's high exemption status, a full assessment of its net contribution to Belize's output and employment is required. More generally, the harmonization of Belize's fiscal incentives and its CFZ and EPZ programmes, in consultation with relevant government ministries and departments and also private-sector stakeholders, is an important short-run action for the agenda. This would provide incentives for the creation of value chains and production linkages with MSMEs, as well helping to ensure a level playing field.

Services

Belize's economy is dominated by services, and in particular the tourism sector, which makes a substantial contribution to GDP and employment. Total services exports amounted to BZ\$896.1m (US\$448m), equivalent to 27.6% of GDP, in 2013. Services imports were valued at BZ\$415.6m (12.8% of GDP) in the same year. The available data show that the tourism sector continues to account for the largest share of services exports, averaging 73% of the total in 2003-13. "Other business services" (a category that includes legal, accounting, technical and other miscellaneous services) accounted for 8.3% of service exports on average in 2003-13, and was the second-largest contributor to total services exports in the period. Both private- and public-sector stakeholders suggested that Belize needed to further develop activities within this category.

¹⁹ BELTRAIDE. <http://www.belizeinvest.org.bz/export-processing-zone-epz-programme>

²⁰ This is the assessment of stakeholders and the Belize Business Bureau.

Figure 13

Important services subsectors in Belize include accounting and legal services; environmental services; transport services (land and maritime); recreational services (in particular those provided as part of the overall tourism experience); architectural and engineering services; construction and related services; and distribution services²¹. Transport services averaged 7.4% of total services exports in 2003-13, whereas insurance and financial services contributed only 0.8% of services exports in the period. The financial services sector was identified by stakeholders during consultations as an emerging sector worthy of promotion.

Belize is not a significant player in the global services market at present. Indeed, according to the Economist Intelligence Unit, 75% of the country's services exports were accounted for by tourism receipts in 2013. However, the country possesses several advantages that it could use to improve its competitiveness in this market in order to increase services exports and FDI inflows into its services sector. These include its geographical proximity to large services markets (notably the US, Canada and Mexico), good (although costly) flight interconnectivity, an English-speaking population in a predominantly Spanish-speaking region, and membership of regional trading arrangements.

²¹ Commonwealth Secretariat, *Enhancing the Export of Professional Services from Belize* (2011).

II. Key challenges for private sector development

This section assesses a number of issues that are critical to the development of the private sector in Belize. It discusses challenges faced by the private sector, drawing on consultations with stakeholders and on several global databases.

Access to finance Belize's financial system is characterized as comparatively underdeveloped²² and also high-cost. The undeveloped and oligopolistic structure of the industry has led to significant challenges for businesses in terms of their access to finance. As in many developing countries, bank credit is the main source of financing for large businesses, while credit unions and moneylenders in the informal sector tend to finance smaller investments and micro, small and medium-sized enterprises (MSMEs). The analysis in this section is based mainly on bank credit. The main issues emerging from consultations with stakeholders are access to finance (see Table 5) and affordability of capital.

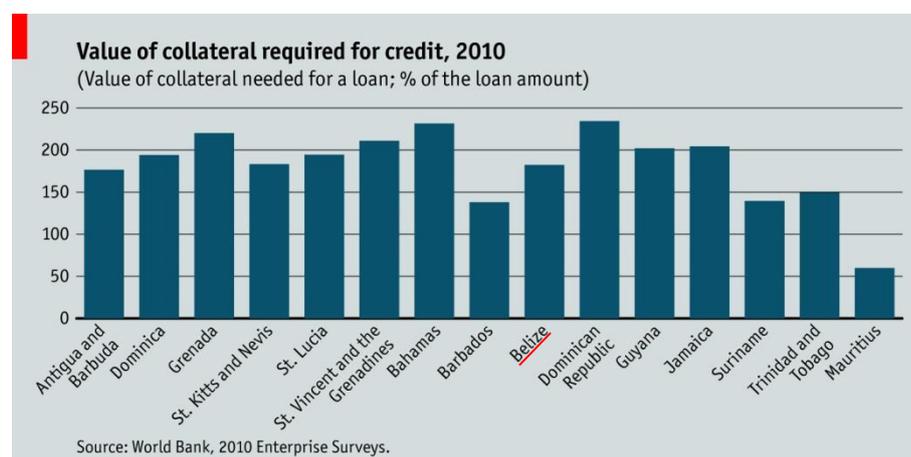
Table 5: Access to finance
(% of firms indicating obstacle)

	All countries	Barbados	Belize	Guyana	Jamaica	Suriname
No obstacle	22.6	26.8	6.6	33.6	18.6	31.9
Minor obstacle	22.6	22.0	17.2	12.6	25.6	32.8
Moderate obstacle	19.5	18.7	18.0	18.5	25.2	10.9
Major obstacle	24.8	22.8	40.2	21.0	23.1	18.5
Very severe obstacle	10.5	9.8	18.0	14.3	7.4	5.9

Source: 2013 firm-level survey funded by Compete Caribbean.

Loans to businesses are available at high interest rates, with a collateral requirement that generally far exceeds the value of the loan (see Figure 14). Micro and small businesses often lack appropriate collateral to back their financing needs and are therefore more credit-constrained than large businesses.

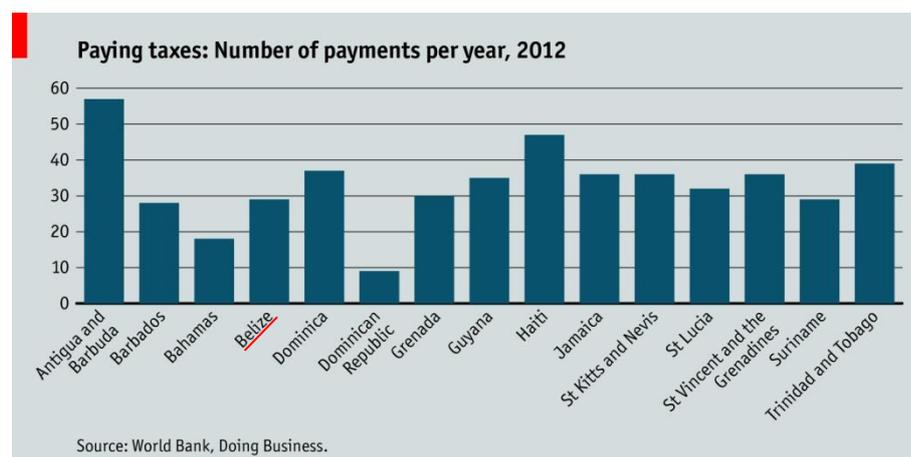
Figure 14



²² Garcia, Novelo and Vellos, *The Evolution of the Financial Sector in Belize (1996-2007)*, p. 27.

Corporate taxation According to the World Bank’s 2013 Ease of Doing Business index, Belize performs fairly well in terms of the tax burden on businesses based on tax rates using cross-country databases. Belize has a relatively low total tax rate as a percentage of profit. Its performance on tax administration is also good, with firms required to make only a modest number of tax payments (29) per year (see Figure 15). Yet cascading taxes and the lack of a level playing field in terms of tax administration are consistent and widespread complaints in the private sector.

Figure 15



Consultations with private-sector stakeholders for the Belize Private Sector Assessment Report (PSAR) revealed that tax issues—relating to tax rates and administration—are among the top three concerns for businesses in the country. Recommendations for improvements included greater automation, with the goal of establishing an electronic-payments system for business taxes and the general sales tax. The rules on taxation are not always clear, and the penalties charged act as a disincentive to businesses—and in particular micro and small firms—to join the formal economy. This in turn hampers consultation and coordination with MSMEs, and acts as an obstacle to the collection of data on the private sector. Micro and small businesses located outside the country's largest urban area, Belize City, and its capital, Belmopan, do not necessarily have access to television and Internet networks, and thus face challenges in keeping up with changes in tax requirements.

Table 6: Tax rates and administration as obstacles to doing business, 2013

(% of firms indicating major or severe obstacle)

	LatAm and Caribbean average	Barbados	Belize	Guyana	Jamaica	Suriname
Tax rates	43.4	21.2	53.0	54.1	64.6	23.4
Tax administration	28.6	21.6	30.9	28.3	37.1	9.7

Source: Compete Caribbean, firm-level surveys, 2013.

Technology and innovation

Technology and innovation are believed to be strong determinants of economic growth and are important in creating an enabling environment for private-sector development. In its Global Competitiveness Report, the World Economic Forum (WEF) provides an index of technological readiness based on indicators for the availability of the latest technologies, firm-level take-up of technology,

FDI and technology transfer, Internet use, broadband Internet subscriptions and Internet bandwidth. In 2011-12 Belize's overall ranking in the index was 118th (out of 142 countries), and the country was ranked next to last in the benchmark group of nations²³.

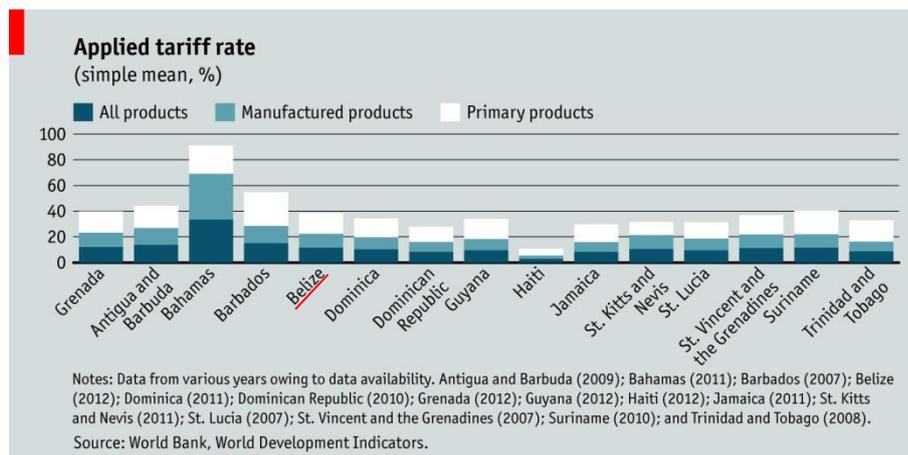
Sufficient investment in research and development (R&D), especially by the private sector, is critical for long-term economic growth and viability of enterprises. This requires the presence of high-quality scientific research institutions, extensive research collaboration between universities and industry, and the protection of intellectual property. In the innovation pillar of the WEF's Global Competitiveness Index for 2011-12, Belize was ranked 135th globally (out of 142 countries) and compared poorly with the comparator countries. R&D in Belize is scant, except in the agricultural and cultural sectors. In the agricultural sector, the Sugar Industry Research and Development Institute (SIRDI), which was established in 2010 and is supported by EU financing, focuses on enhancing the competitiveness of Belize's relatively high-cost sugar industry²⁴.

Trade policies

Tariffs are relatively high for most categories of goods imported into Belize (see Figure 16). The average applied tariff on all products in 2006-11 stood at around 11%, high by the standards of the comparator group of countries. Tariffs are highest on agricultural goods, averaging around 36% in 2006-11, although the average rate declined from about 39% in 2009 to 34% in 2011. The level of protection offered to manufacturing industry is relatively low, with average tariffs on imports of industrial goods estimated at 8%. It should be noted, however, that under the Fiscal Incentives Act some industries, and particularly enterprises in the tourism sector, can import goods duty-free. The cost of trade with Belize is further affected by restrictive licensing rules for the import of some products. Import licences are imposed to protect certain producers. Overall, the policy restrictions on imports increase input costs for domestic producers while boosting the rate of return for supplying the domestic market, thereby creating an anti-export bias. The restrictions also create strong incentives for the private sector to seek to avoid such costs, and thereby increase demand for exemptions through incentive arrangements.

²³ Belize has not been covered in the Global Competitiveness Report since the 2012-13 issue, so the 2011-12 report was used.

²⁴ According data prepared by SIRDI and Galen University, the cost per tonne of sugarcane production in Belize (before transportation to factory) is around US\$57, compared with around US\$11.50 in the US and US\$3.50 in Guatemala.

Figure 16

A key feature of the trade policy framework is Belize's access to preferential trade arrangements. Belize benefits from unilateral preference schemes with the EU (most notably its banana and sugar protocols), US and Canada. It is a member of the Caribbean Basin Initiative, through which the US government provides duty-free access to the American market for most products. A significant portion of Belize's foreign trade is conducted under these preferential agreements, and currently about 85% of its exports are duty-free. Belize's exports are still heavily skewed toward preference-scheme destinations. Belize was ranked poorly, at 121st (out of 142 countries), for the efficiency of its goods market in the 2011-12 Global Competitiveness Index (its ranking relative to the comparator countries was also low).

Infrastructure

Fiscal constraints largely explain low capital investment in infrastructure. Belize was ranked 100th (out of 142 countries) on basic infrastructure provision in the WEF's Global Competitiveness Index for 2011-12. The quality of infrastructure in the country is poor. However, the government has recently mobilized substantial bilateral and multilateral financing for infrastructure improvements, and particularly for transport investments, which are critical in terms of supporting private-sector development (PSD). These projects include the completion of the Southern Highway, the construction of a bypass in the twin towns of San Ignacio and Santa Elena, and numerous projects for roads to connect key tourism centres. Enhancements to infrastructure will continue to support PSD, given the opportunities that they will provide for business developments in newly accessible tourist hot-spots.

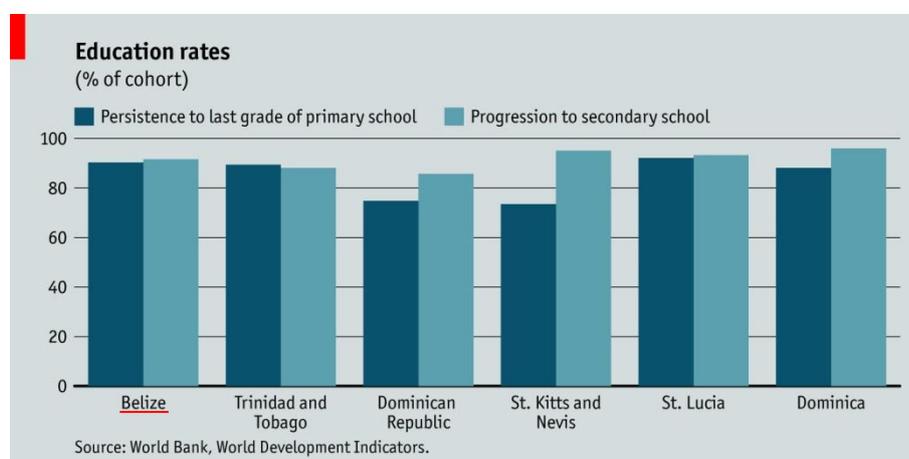
Other infrastructure improvements that are required in Belize include investment in the primary government agencies responsible for increasing preparedness for potential disaster events (notably coastal flooding), and moves to address the substandard condition of parts of the country's infrastructure that have safety implications. A particular challenge is the absence of sustainable road-maintenance financing mechanisms, owing to fiscal constraints and also institutional resistance to the adoption of alternative approaches, including private-sector participation. However, the government has expressed its commitment to undertaking institutional reforms with support from the EU in order to develop a road-maintenance plan. In addition,

in March 2013 the government announced a BZ\$60m infrastructure package to be financed and implemented via a newly registered, state-owned company, Belize Infrastructure Limited, led by a board of directors comprising representatives of both the public and private sectors.

Education and training

Belize's expenditure on education is high as a proportion of GDP, and also as a percentage of government spending, compared with levels in other developing economies in the Western hemisphere. Yet public- and private-sector stakeholders consulted for the Belize PSAR identified improving the education system as a major challenge, calling into question both the quality of the country's education system at present and its cost-effectiveness. With regard to cost-effectiveness, an Inter-American Development Bank (IDB) report published in 2013²⁵ suggested that Belize's education system faced challenges in relation to internal efficiency. Repetition and drop-out rates in secondary schools stood at around 10% in 2010, with a greater percentage of boys than girls repeating grades and dropping out, while completion rates were low.²⁶

Figure 17



In recognition of the need to improve the skills of the labour force, centres for employment training have been established. The Centre for Employment Training (CET, a private-sector entity) is a leading organization in skills-oriented training, including training for the tourism sector. CET centres are located in most districts of Belize. The Technical and Vocational Employment Training Act of 2005 was followed in 2006 by the foundation in 2006 of the Institutes for Technical and Vocational Education Training (ITVETs),²⁷ whose mission is to "equip Belizeans with the skills, knowledge, attitude, work ethic and credentials that will enable them to become gainfully employed".²⁸ ITVETs offer demand-driven skills training, providing trainees with access to skills, training and support services.

²⁵ Naslund-Hadley, Alonzo and Martin, Challenges and Opportunities in the Belize Education Sector, IDB (2013).

²⁶ Ibid.

²⁷ See <https://www.facebook.com/ITVETBELIZECITY/info>

²⁸ Ministry of Education.

In addition, in October 2014 the Belize Trade and Investment Development Service (BELTRAIDE) inaugurated the Belize Training and Employment Centre (BTEC). The centre is intended to be a demand-based training institute. BTEC will collaborate with companies to design training programmes specific to their skill needs, and will recruit trainees and execute the training on behalf of firms. The training programmes will equip trainees with sector- or company-specific skills. Partners for the organization are to include the Ministry of Education, BELTRAIDE and ITVETs.

Competitiveness

The WEF's 2011-12 Global Competitiveness Report ranked Belize 123rd (out of 142 countries) overall. The only countries in Latin America and the Caribbean that received a lower ranking for overall competitiveness were Venezuela (124th) and Haiti (141st). Among the Global Competitiveness Index's 12 subsectors²⁹, Belize scored lowest for business sophistication, innovation, and market size. Additional factors cited that adversely affect Belize's competitiveness include crime and theft, corruption and inefficient government bureaucracy. The World Bank's Enterprise Survey for 2010 found that 62.5% of firms surveyed in Belize viewed corruption as a major obstacle to doing business, compared with an average of 39.9% of firms in Latin America and the Caribbean and 36.3% globally. A follow-on 2013 firm-level survey funded by Compete Caribbean found that 48% of firms in Belize considered corruption to be a major or severe obstacle to doing business.

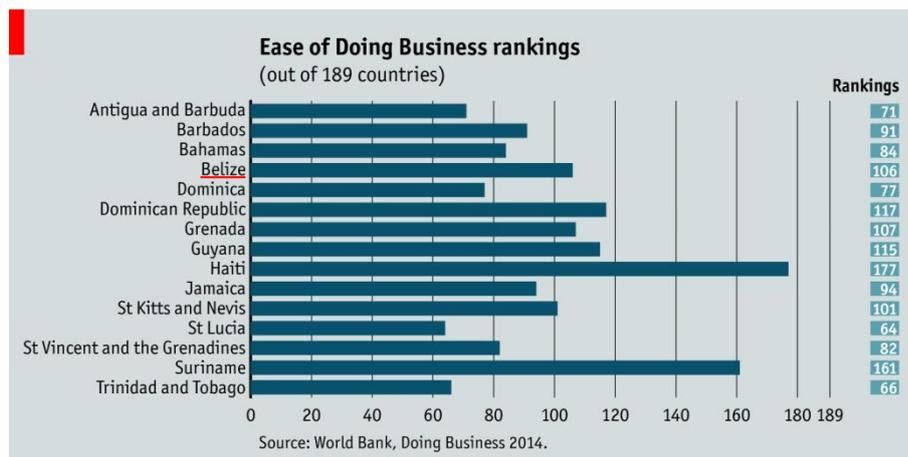
There is a high degree of correlation between the World Bank's Doing Business rankings and the WEF's Global Competitiveness rankings³⁰. Belize's ranking of 106th (out of 189 countries) in the World Bank's 2014 Doing Business report (see Figure 18) is reflective of the country's level of competitiveness. The 2014 ranking is down only marginally from 104th in 2013, but represents a significant deterioration from 75th (out of 181 countries) in 2009. However, Belize is ranked highly in the categories of dealing with construction permits (16th), resolving insolvency (30th) and paying taxes (48th).

²⁹ The 12 pillars are innovation, business sophistication, market size, technological readiness, financial market development, labour market efficiency, goods market efficiency, higher education and training, health and primary education, macroeconomic environment, infrastructure, and institutions.

³⁰ World Bank, Doing Business 2013.

<http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-Chapters/About-Doing-Business.pdf>

Figure 18



Gaps in information

Significant gaps in statistics regarding productive activity in Belize's economy impede a comprehensive analysis of the private sector. Filling in data gaps reflecting the size of the private sector and its contribution to the national economy, among other areas, should be a priority for the country. A list of information gaps is provided in the Priority Areas and Action Plan section.

III. Emerging sectors

Based on the above analysis and consultations with stakeholders, the large and fast-growing industries in Belize are all in the services sector. The most notable of these are tourism and also information and communications technology, or ICT (the latter consisting mainly of business-process outsourcing, or BPO). There are other potentially emerging activities—although they are not large or necessarily fast-growing—that stakeholders identified as warranting support from the government, namely financial services and agro-processing. However, hard data are scant or non-existent for these industries. All of these industries, with the exception of financial services, were identified as priorities in the National Export Strategy for 2007-10.³¹

Tourism

The growth of the tourism sector in Belize has been remarkable and provides an example of successful partnerships between the public and private sectors. The private sector's role in moving the industry forward by means of continuous investment and innovation has been instrumental in crafting the tourism product offered by Belize today. Since the mid-1980s the public sector has provided an enabling environment in which the private-sector tourism industry has been able to grow. More recently, in 2011 the National Sustainable Tourism Master Plan (NSTMP) provided an agreed vision and policy framework to guide the future development of Belize's tourism sector. In 2013 the tourism sector generated US\$351m in inflows, accounting for about 22% of GDP, up from around 6% in 1985. Between 1984 and 2011 tourism revenue registered steady annual increases, averaging around 7.5%. By 2011 the sector's total direct and indirect contributions to GDP and employment in Belize stood at 45% and 41% respectively,³² although these contributions to GDP and national employment were slightly lower than those in some comparator countries in which the tourism sector is more mature (see Table 7).

Table 7: Tourism sector's contributions to GDP and employment, 2011

(% share of contribution)

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

Source: World Tourism Association, 2012.

Regarding the competitiveness of the overnight-stay segment of the tourism sector, Belize appears to be an expensive destination in terms of air fares. It is cheaper on average to fly to Costa Rica or Caribbean destinations than to Belize. This is largely due to the high landing fees and taxes levied, as well as to

³¹ BELTRAIDE (2006), Belize National Export Strategy 2007-2010, p. 43.

³² Belize's tourism sector is dominated by micro, small and medium-sized enterprises. According to the Belize Tourism Board, most hotels have fewer than 12 rooms and employ fewer than ten staff.

infrastructure constraints³³. However, in terms of overall price-competitiveness, trends in the real effective exchange rate of the Belize dollar indicate a competitive advantage for Belize's exports, including tourism. Belize's objective is to market itself to high-end, low-impact travellers rather than to long-haul charter and mass-tourism markets.

The number of cruise-ship passengers visiting the country has ballooned in recent years, from just 49,411 arrivals in 2000 to nearly 610,000 in 2013. The main challenge ahead in this regard will be to upgrade Belize's port facilities for cruise ships. The government privatized the Port of Belize City in 2002. The expectation was that port charges would fall, but instead they have risen. Part of the reason for this may be the virtual absence of competition. Moreover, port infrastructure has been only selectively improved. The port company has concentrated its investment on improving infrastructure for the high-margin (cruise-ship) tourism industry rather than for the lower-margin area of freight traffic. The viability of this segment of tourism services in Belize will depend on the country's ability to modernize its port facilities. The current government is seeking to establish a new port at State Bank, near Belize City, and another in the south of the country, at Harvest Caye, to accommodate what appears to be an expanding cruise-ship sector.

In terms of the further development of the tourism sector, there is certainly scope to upgrade and expand the country's tourism product in line with the goal of taking Belize into "the future equipped with a dynamic, competitive, and sustainable tourism industry"³⁴. Analysis of Belize's tourism sector indicates that there is room for an increase in the level of export sophistication compared with other tourist destinations in Central America and the Caribbean³⁵. Belize's overnight arrival numbers are the lowest of any of the comparator countries. Further diversifying Belize's tourism product, as planned and in line with the NSTMP, to emphasize its comparative advantage in ecotourism based on the country's rainforests and Mayan heritage, is another area with growth potential. Medical tourism and education tourism represent additional possible areas of growth. Another potential channel for upgrading the country's offering is the expansion of the number of origin markets, in order to target overnight visitors from countries with attributes that differ from those of Belize's main market of North America. In this regard, consideration might be given to tapping South American, European and Asian markets for overnight visitors.

Finally, it will be important to strengthen the collection and reporting of tourism-related data, in order to establish a baseline and gain a clearer understanding of the trends in Belize's tourism industry and potential areas for expansion.

**ICT–business-
process outsourcing**

BPO is a growing sector in Belize, although it is currently a small industry, consultations with stakeholders suggest that exports in this sector are worth

³³ Large-capacity aircraft cannot land or manoeuvre on the runway at Philip Goldson International Airport.

³⁴ National Sustainable Tourism Masterplan for Belize 2030, Executive Summary, 2011.

³⁵ See Hausmann and Klinger, pp. 23-25.

around US\$4m-6m annually³⁶. At the end of June 2014 there were 18 BPO companies operating in Belize, employing 2,335 employees, up from 10 firms in 2011 employing 1,126 people³⁷. There is broad consensus among both public- and private-sector stakeholders that the BPO sector is an important emerging sector worthy of public-private partnership. The requirements for the growth of the BPO industry in an offshore destination depend on human capital, infrastructure, an open business environment, and a supporting structure that includes investment promotion and trade bodies. The advantages that Belize can offer include English- and Spanish-language competency, as well as proximity to the US. Increasingly, US buyers are looking at near-shore destinations, such as Canada, Mexico and Latin America. Latin America can offer cost savings of up to 40% to US customers, in addition to its near-shore travel and time advantages³⁸. However, Belize faces challenges in competing in this sector and attracting investors compared with other countries in the region, consisting mainly of its lack of a qualified and skilled labour force and its relatively poor infrastructure.

Financial services

Belize is a newcomer to the international financial services industry. The 1990 International Business Companies Act allows international investors to engage in offshore transactions, such as asset protection, the operation of bank and brokerage accounts, ship ownership, and commission arrangements. The act was based on the British Virgin Islands model. Within the space of ten years Belize had registered more than 15,000 international business companies (IBCs). Belize's IBC legislation is viewed internationally as among the most modern and user-friendly in the world, and is designed with offshore investors in mind.

One of the major issues facing Belize's financial services industry is the need to establish a database on the size of the sector, employment in it and the value that it adds to the economy. In this regard, the Belize Offshore Practitioners Association is considering launching a project to make an initial assessment of the sector. Another key concern for the industry is the need to protect its international competitiveness. Few of the proceeds generated by taxes on Belize's international financial services sector are reinvested by the government in the sector for marketing, promotion and product development, and this has negative implications for the industry's outlook³⁹.

More generally, skilled workers are needed to support the growth of the financial sector. This in turn requires a review of, and modifications to, immigration and labour laws to enable skilled workers to be employed in Belize more easily. Finally, there has been some support in government circles for the aim of concluding a double-taxation treaty with the US. Regarding the

³⁶ BPO consists of the delegation of information technology (IT)-intensive business processes to external service providers or internal captives that own and administer these selected processes. It involves the outsourcing of back-office functions, such as finance and accounting and human resources, and front-office functions, such as customer interactive services. Knowledge-process outsourcing involves processes that demand analytical, decision-making and domain-specific skills.

³⁷ Luis Soto (2014). "Strengthening the Institutional Architecture for Investment Attraction in Belize (BL-CC2005)" End of Project Evaluation, Draft Report.

³⁸ *Idem*.

³⁹ Belize Chamber of Commerce and Industry (BCCI), White Paper (2012), p. 15.

outlook for the sector, one potential area of growth that has been flagged is asset protection and wealth management via trusts, although developments in this field would require modification of the law.

Agro-processing

Belize has had little success diversifying away from primary agriculture. The objective remains to generate more agro-industries in areas and segments in which economies of scale are achievable. Growth prospects face five major constraints, namely institutional capacity for trade policy formulation and implementation; diseases facing the citrus and banana industries; export promotion; access to finance; and road transport infrastructure. The Belize Chamber of Commerce and Industry's White Paper calls for a "fully tailored agricultural policy that identifies products that Belize can produce consistently and predictably...[and in which it can] create niche markets."⁴⁰ The government is currently developing an agricultural policy document.

Based on a product space analysis, the 2007 Growth Diagnostic for Belize (Hausmann and Klinger) contains a list of "low-hanging fruit"—that is, areas into which production could shift. These are segments that are similar to existing production activities, but whose products are not yet exported and which also have comparative advantages. In Belize these areas are identified as being in the agricultural sector, and consist of non-traditional agricultural produce, forestry products and mariculture products. In effect, there are many new entrants in the agro processing and aquaculture sectors which have applied for EPZ status in the last two years (2013-2014). Based on these applications, grain production, sugar and aquaculture appear to be the key growth segments in the agro processing sector. These areas of production are desirable not only because they can leverage existing export sectors, but also owing to the fact that they represent opportunities to move into more sophisticated production activities, with growth-enhancing implications for the export basket.

⁴⁰ BCCI, White Paper, p. 47.

IV. Priority areas and action plan

The Private Sector Assessment Report (PSAR) for Belize concludes that the largest challenge for private-sector development (PSD) is to establish permanent mechanisms for a durable and systematic public-private dialogue and follow-up on agreed actions. In addition, given the resource constraints faced by both public- and private-sector stakeholders, a second major proposal is that agreement be reached on the need to focus on a few emerging and priority sectors. An ongoing public-private dialogue can help in identifying priority industries for concerted public-private action, supported by donors, in the short to medium term.

The potential downside of a selective strategy is that differential treatment of economic sectors is increasingly being questioned by Belize's private sector and by society more generally. The sectors that lose out from selective policies, which mainly consist of micro, small and medium-sized enterprises (MSMEs), favour a more level playing field for market participants in place of the current practice of granting ad hoc tax breaks. Thus, policy measures to address the issues facing MSMEs have been given high priority, as evidenced by the implementation of the recommendations in the Belize MSME Policy and Strategy Report. For example, the first Small Business Development Centre was launched in October 2012. The centre, which is housed within the Belize Trade and Investment Development Service (BELTRAIDE), provides customized needs-based services to MSMEs with the aim of enhancing their competitiveness and export-readiness.

Pro-MSME policy measures can operate in tandem with a selective approach. The alternative strategy, to focus on improving certain aspects of the overall business climate by addressing the most problematic issues, might present lower risks in the medium to long run but would sacrifice the immediate delivery of higher employment—a critical short-term issue in Belize.

- Further priority actions for PSD that this report identifies include the following:
- Improve macroeconomic stability by prudent fiscal consolidation and debt management
- Improve access to finance, for MSMEs in particular, by establishing credit bureaux and other means of assessing risk and reducing reliance on real estate as collateral for loans. Through collaboration with the IFC, there are plans to establish a Secured Transactions and Collateral Registry.
- Establish programmes to develop skills in the labour market that are demanded by emerging and expanding sectors, namely tourism, information and communications technology (ICT), financial services and agro-processing
- Reform the tax system by providing a level playing field for all market participants, in place of the current practice of providing ad hoc tax breaks
- Improve property rights (in terms of property registration and enforcement of contracts)

- Improve measures to address crime and corruption
- Promote innovation through partnerships with universities (such as the University of Belize and Galen University) and other local tertiary-education institutions in support of research and development.

Priority private-sector development issues The number of possible areas for PSD in Belize is large. The priorities presented here reflect an effort to select only those that would deliver high value added (see tables 8, 9 and 10). The priorities presented are clustered around the following issues: (1) articulating a vision and a durable framework for PSD, (2) improving the business climate for PSD, and (3) facilitating the expansion of fast-growing and emerging sectors.

Table 8 Belize: policy interventions to strengthen PSD dialogue and co-ordination

Identified constraint	Proposed actions
A clearly articulated vision for PSD, and improved co-ordination on PSD-related issues, are required	Agree on the modalities for public-private dialogue and pass legislation to establish the Economic Development Council (EDC) and the Business Forum as permanent institutions. Such moves are under way in the context of a Compete Caribbean project aimed at strengthening the EDC's policy co-ordination role by providing staffing and technical support.
Improved national statistics required	The private sector can lead the effort to fill in data and information gaps with donor support, along the lines of the initiative under way with the Belize Coalition of Service Providers for the professional-services sector.

Table 9 Belize: priority PSD issues—improving the business climate for PSD

Identified constraint	Proposed actions
Macroeconomic stability needs to be improved	Lower budget deficit in real terms. Identify causes of high interest rates.
Better access to finance and greater financial transparency needed	Create new products, initiatives and institutions to meet demand for financing, and aim to reduce interest rates and collateral requirements.
Inefficient delivery of public services	Implement public service reform based on public-private consultations currently under way.
Burdensome tax policies and procedures	EDC to follow up on recommendations for reform of tax system. This requirement is currently being addressed by the EDC.

Table 10 Priority PSD issues—facilitating expansion of fast-growing and emerging sectors

Identified constraint	Proposed actions
Merchandise exports are biased towards primary and low-value-added products	Private sector to take the lead on designing strategies to promote export diversification.
Services exports are concentrated in tourism sector and on visitor arrivals from US	Agree on actions to be implemented in support of emerging sectors, including ICT/business-process outsourcing (BPO) and medical tourism. Develop the long-haul visitor market. Work has recently been done in this area by BELTRAIDE. A Compete Caribbean-funded report on support for the implementation of an outsourcing strategy in Belize focuses on the BPO industry.
Poor capacity for innovation	Partner with relevant public-sector stakeholders, in particular the Ministry of Trade, BELTRAIDE and the Ministry of Finance, to design a demand-driven fund to facilitate innovation. Consider partnerships between the private sector and universities, including overseas universities.

In addition to deciding on priorities, stakeholders will also need to agree on a plan to prioritize the filling in of gaps in data and information. As noted in this report, there are many data gaps that need to be filled in through the collection of primary data. The donor community can play an important role in funding

data collection. Belize would benefit from moves to address the following information gaps:

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

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