



**Belize: A Private Sector  
Assessment  
Private Sector Development  
Discussion Paper #6**

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**Inter-American  
Development Bank**

Institutional Capacity  
and Finance Sector

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**Inter-American Development Bank**

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## *Belize: A Private Sector Assessment: Executive Summary*

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### *(i) The Private Sector Needs*

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#### **A Lower Cost of Domestic Finance**

- High domestic interest rates constrain domestic private investment, although opportunities are well identified.
- Sustained fiscal discipline is needed to remove the macroeconomic causes of high interest rates, and complementary actions to establish a credit bureau, improve competition in the financial sector, promote an efficient and effective credit union industry, and reform the legal framework for secured loans that would help reduce the cost and improve access to credit.

#### **A Different Incentive Framework**

- The current incentive framework tries to offset the damage to competitiveness caused by high tariffs and barriers to trade by selectively extending exemptions to certain activities and producers.
- Several incentive programs designed to encourage investment in Belize cost the government badly needed revenues while, in effect, raising the tax rates of everyone else and indirectly raising the cost of finance. They create an uneven playing field between sectors and enterprises and lobbying for parity, distort investment decisions, and incur high transactions costs. Long-term private sector health would be improved by a more uniform tax treatment.

#### **Improved Infrastructure**

- Provision of infrastructure is inherently difficult and costly due to low population density and lack of scale economies but has been complicated

by fiscal constraints and also by the management and form of regulation of utilities.

- Improved provision of solid waste, sanitation, and municipal airports is needed for tourism growth; improved provision of feeder roads is needed for agricultural sector growth; and increased attention to road maintenance is required for all private sector activities.

#### **Secure Property Rights and a Low Cost Transactions Framework**

- Improved land management that clarifies the legal and regulatory framework for land, strengthens property rights, and lowers transaction costs, while ensuring adequate protection of environmental and social objectives, would facilitate private investment.

#### **A Flexible and Adaptive Labor Market**

- Labor legislation and practices are not geared toward the needs of a modern economy, particularly one increasingly based on international services.

#### **Revamped Trade and Investment Promotion**

- Currently investment promotion is focused on: (i) administering fiscal incentives instead of attracting investors; and (ii) promoting small domestic investors instead of large, foreign investors who are not finance-constrained.

### *(ii) We Recommend*

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#### **Lowering the Cost of Domestic Finance**

- Action 1: Strengthen fiscal institutions and public financial management practices to entrench fiscal discipline and reduce macroeconomic pressures on interest rates.

#### **Improving Access to Credit**

- Action 1: Support the creation of a credit bureau.
- Action 2: Strengthen the capacity of micro, small, and medium enterprises to access credit.

#### **Undertaking Tax Reform**

- Action 1: Consolidate and reduce trade taxes. A first step should be tariffication of import licenses.

- Action 2: Reduce and phase out the fiscal incentive programs, to make the system less discretionary, and more sector, investment, and activity neutral. The tax system should be simple to administer and comply with; and the tax burden should be spread evenly.

#### **Improving Selected Infrastructure**

- Action 1: Protect sustainability by improving solid waste and sanitation management.

- Action 2: Strengthen selected transportation infrastructure, such as municipal airports and rural feeder roads, in a judicious manner.

#### **Strengthening Property Rights**

- Action 1: Adopt a modern land information system that is efficient and user-friendly.
- Action 2: Clarify the legal and regulatory framework for land management.

#### **Modernizing Labor Legislation**

- Action 1: Reform labor legislation and practices to bring them into line with the needs of a modern economy.

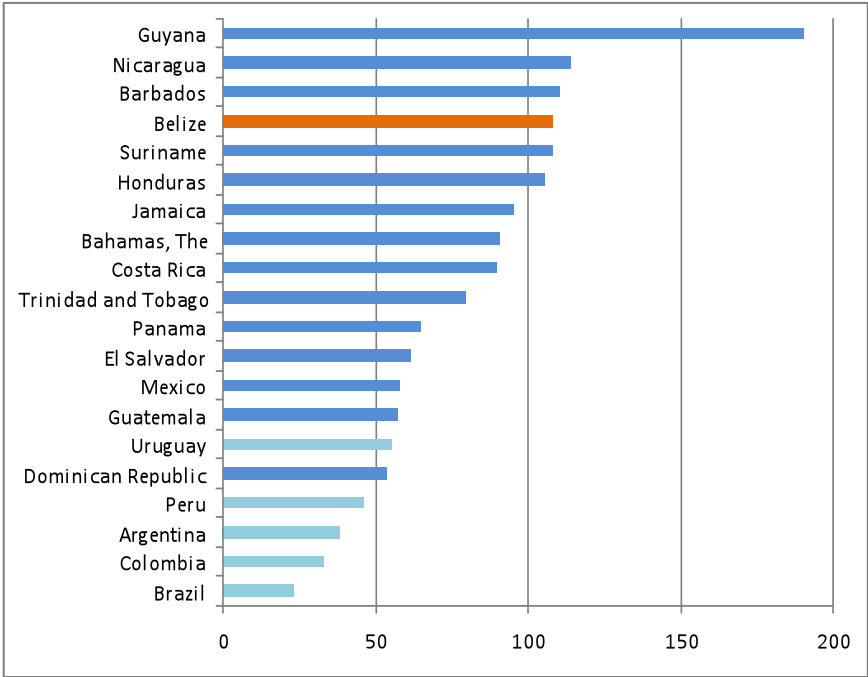
#### **Reorienting and Bolstering Trade and Investment Promotion**

- Action 1: Redirect BELTRAIDE's focus from administering fiscal incentive programs toward attracting private investment.
- Action 2: In the short term, increase attention toward large-scale foreign direct investment that is not constrained by high domestic interest rates. Development of an Investment Law might facilitate investment promotion.
- Action 3: Use the interaction of BELTRAIDE and the Belize Tourism Board with investors to gain an understanding of their concerns and target provision of public goods to addressing those concerns.

### Country Context

Two basic factors shape private sector development in Belize. First, the population is small -- only 322,000 as of mid-2008. This limits the size of the domestic market and potential economies of scale. The economy was only US\$1.3 billion in 2009 and diversification is limited. The economy depends strongly on trade with the world economy, both as a market for domestic produce and as a source of the wide range of products that would be costly or impossible to produce domestically. Aside from Caribbean micro-states, Belize is the fourth most open economy in Latin America and the Caribbean (Figure 1). Any strategy to promote private sector development has to recognize that growth will continue to be export-led.

**Figure 1- Trade in Goods and Services in Latin America and the Caribbean, 2009**  
*(Percentage of GDP)*



Source: World Economic Outlook, International Monetary Fund, 2009

The lack of economies of scale rules out the production of any product where scale economies are important and increases the unit cost of the provision of public goods. The dispersion of the population and low population density exacerbate the effect of the lack of

economies of scale on the costs of basic services – electricity, water and sewerage, and telephone services. Many parts of the country, including areas with undeveloped arable land, are not even served by secondary roads. Moreover, small scale tends to reinforce tendencies toward natural monopolies in certain industries. This adds to the need for high quality regulation. But the provision of regulatory services also suffers from small size constraints.

The second basic factor shaping private sector development is the fact the country is land abundant and has always had a comparative advantage based on natural resource exploitation. Historically, Belize’s dominant industry was timber and then agriculture, especially sugar. Since the late 1980s, the tourism industry has grown rapidly and taken over the mantle of leading industry. Since 2006, the petroleum sector has emerged, making an important contribution to exports, government revenues, and growth in gross domestic product (GDP) in 2006-2009. Given Belize’s natural endowments, labor is relatively scarce and expensive, and capital is relatively scarce. These relative prices, the small size of the domestic market, limited economies of scale, and lack of industrial tradition have ensured that the manufacturing sector is limited to agricultural processing and basic import substitution activities. In early 2009, one of the last remaining light industries of any size – a manufacturer of fine garments that had made Belize its home for half a century – moved its operations to China.

In addition to the two structural challenges mentioned above, development of Belize’s private sector faces a third challenge: the high level of public debt (Table 1). In mid-2009, public debt was equivalent to 82 percent of GDP. Of this amount, external debt constituted the overwhelming majority (equivalent to 72.1 percent of GDP).

**Table 1- Regional Debt Comparison, December 2008**  
(Percentage of GDP)

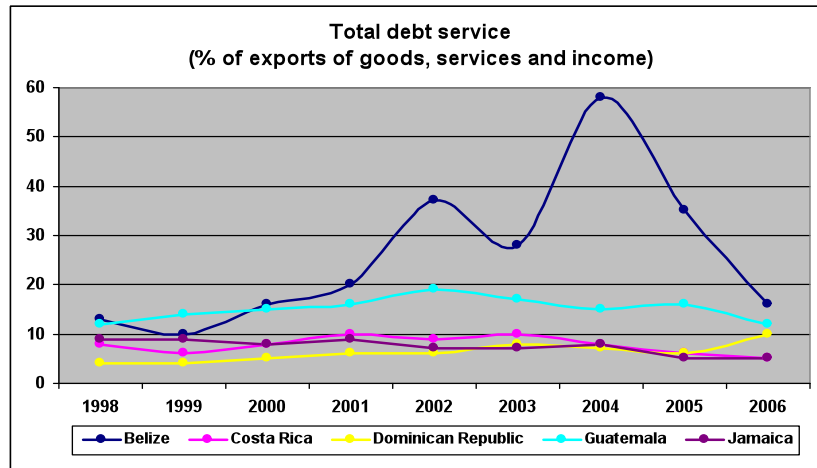
Country	Total Debt	External Debt
St. Kitts and Nevis	177.6	60.4
Jamaica	122.4	41.5
Grenada	109.0	78.6
Guyana	92.5	66.1
Dominica	86.3	59.3
<b>Belize</b>	<b>77.3</b>	<b>69.5</b>
St. Lucia	69.6	43.8

St. Vincent & the Grenadines	67.5	35.0
Costa Rica	41.6	14.6
El Salvador	39.8	24.4
Panama	39.0	32.9
Dominican Republic	35.5	17.1
Haiti	28.1	23.9
Trinidad and Tobago	27.2	5.8

*Source:* IMF Article IV consultations.

On the one hand, the high level of public debt rules out large-scale fiscal stimulus as a mechanism for promoting growth and underlines the importance of private sector development as the route to economic growth. On the other hand, servicing the high level of public debt could act as a constraint to private sector growth. The fiscal burden of the debt is substantial – interest payments represented 3.9 percent of GDP in 2008 and will likely grow to 4.5 percent by 2010. The necessity of generating primary surpluses of sufficient magnitude to cover these interest payments limits the government’s ability to reduce the tax burden on the private sector and could constrain government investment in growth-enhancing areas, such as physical infrastructure or education. The extremely high proportion of external debt implies that external servicing of the debt is also a challenge. Interest payments to external creditors require a net transfer of resources abroad, which in turn implies that Belize’s capacity to import will remain somewhat lower than its export level for the foreseeable future. Belize’s debt service as a percentage of exports of goods, services, and income has been high compared with other countries in the region over the last 10 years. Following a bunching of debt repayments in 2004, it declined in 2005 to below 40 percent and in 2006 to below 20 percent, but is still relatively high (Figure 2).

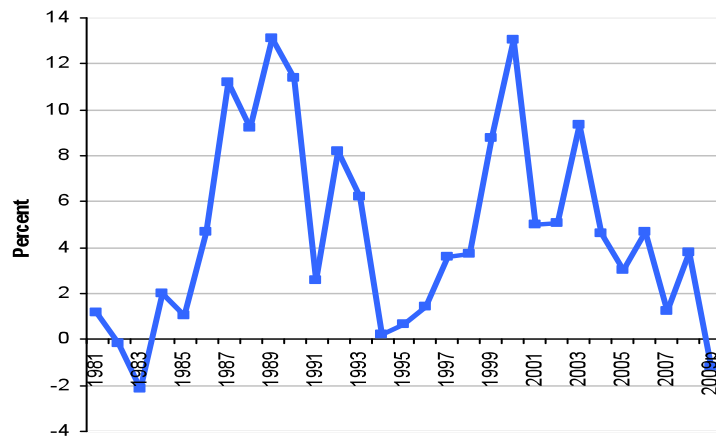
**Figure 2- Total Debt Service, 1998-2006**  
*(Percentage of exports of goods, services and income)*



Source: World Development Indicators, April 2009, World Bank.

Over the past 20 years Belize has gone through periods of rapid economic growth of more than 10 percent annually (1988, 1987-1992, 2000) followed by recession (1983) or virtually no growth (1994-1995) (Figure 3). Over the long term, Belize has grown rapidly compared with Central American countries but only about average compared with the Caribbean Community (CARICOM) (Belize: Growth Diagnostic (2008)). From 1998-2003, the Belize economy was primed by public sector expenditures, resulting in very high public sector debt.

**Figure 3- GDP Growth, 1981-2009**  
*(Annual percent)*



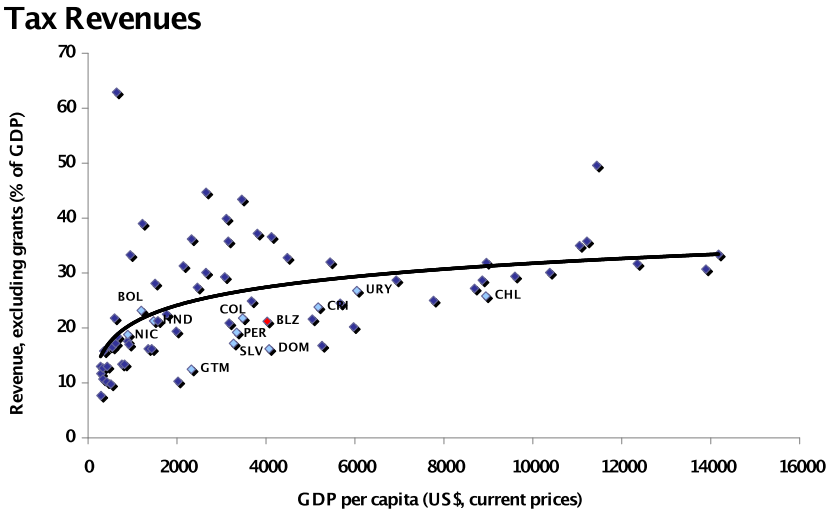
Source: Statistical Institute of Belize and IDB projection.

# The Private Sector in Belize

## *The Relative Size and Structure of the Private Sector*

In Belize’s mixed economy, the private sector accounts for roughly two-thirds of the economy and the state one-third. General government (central government plus the Social Security Board) revenues were equivalent to 32 percent of GDP in 2008 and expenditures were equivalent to 30.6 percent of GDP. If grants and social security contributions are not included, the tax burden is comparable with other countries in the region, and even a bit lower than would be predicted for a country of Belize’s per capita income (Figure 4). The state controls the water and sewerage utility but the public enterprise sector is limited. A state-owned development bank has generally had a modest role compared with private sector commercial banks, with the exception of the period from 1998 to 2004. As is common in the Caribbean, the state is a major land owner.

**Figure 4- Tax Burdens, 2008**  
*(Percentage of GDP)*



Source: World Development Indicators (WDI) 2009, World Bank and World Economic Outlook (WEO) October 2009, IMF.

The Belize Chamber of Commerce and Industry (BCCI) lists 238 members; but these are mostly large and medium-scale companies and it significantly understates the size of the private sector. For example, the Belize Tourism Industry Association alone has 640 members. Small-

scale Belizean enterprises predominate in tourism, agriculture, food processing, and many services. Large-scale, often foreign-owned, companies dominate sectors requiring significant capital and/or technical know-how – electricity, telecoms, banking services, and petroleum exploration and production.

Tourism is the single most important industry, contributing roughly 25 percent of employment and 21 percent of GDP. Small enterprises play an unusually large role in Belize's tourism sector, compared with more traditional destinations such as The Bahamas and Barbados. Agriculture, forestry, and fishing were traditionally the dominant industry. Despite a decline in value added as a percentage of GDP from 21 percent in 1986 to 13 percent in 2008, it remains an important source of employment, exports, and value added. The most important crops are sugar, citrus, and bananas. These have been complemented by industrial production, including manufacturing, mainly of agricultural products. Oil production started in late 2005 and now contributes roughly 7 percent of GDP. Food processing and other services comprise the remainder of private sector activities.

The services sector is extremely important to Belize's economy, accounting for about 70 percent of the country's employment, and representing roughly 45 percent of the country's total exports. Within the service sector, tourism is the undeniable leader. The country's natural beauty is the main attraction, making eco-tourism a specialty in Belize. Any damage to the environment – for example, through unplanned tourism development, de-reservation of national parks, and construction – is therefore a threat to this industry.

The information communication technology (ICT) industry, which provides relatively high paying jobs for Belizeans, is perhaps one of the most promising sources of growth for the private sector, given that Belize is English-speaking and geographically close to the United States. The most promising lines are in development of software, online games, offshore data processing, and call centers. The telecommunications field has benefited from deregulation as the government has looked to develop this sector.

In 2000 the government opened a private e-commerce park in the Belize City Export Processing Zone (EPZ). It allows dotcoms freedom from taxes, and significantly lowers registration and license requirements. Businesses only need to be established through the park's

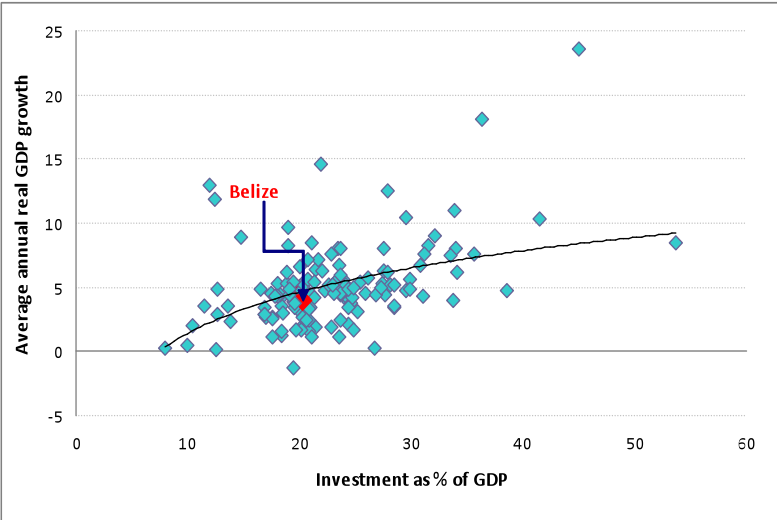
official attorneys in order to begin operating legally, bypassing licensing requirements under the Computer Wagering Licensing Act. This move has successfully stimulated the e-business sector, generating 650 new jobs.

As of the end of 2007, four ICT companies operated as EPZs and received export and import duty exemptions and tax holidays. In November 2007, the government granted Infotel International Limited EPZ status to establish an ICT business and call center operation in Belize City. The center includes data and voice processing services such as telemarketing, customer support, direct marketing, and e-mail and website hosting. Two other companies operate ICT businesses as EPZs in Belize: Ready Call Ltd., an international call center operation, and Pinnacle BST, an ICT application service. The rate of taxation on larger projects, including some ICT and port investments, is opaque and does not permit an evaluation of viability with or without tax breaks.

**Investment Trends**

Belize’s gross capital formation has been satisfactory, averaging 21.7 percent of GDP between 1998 and 2008, in the mid-range internationally (Figure 5). Investment efficiency (in terms of GDP growth generated per amount invested) appears to be only a little below average.

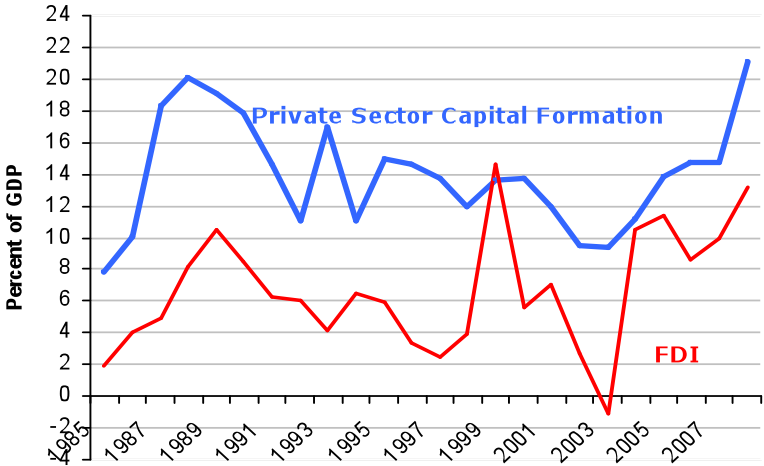
**Figure 5- Gross Capital Formation and GDP Growth, 2001-2007**



Source: World Development Indicators 2009, World Bank.

However, the composition of capital formation is of more concern. First, public investment has comprised a higher proportion of total capital formation than in other countries, and private investment a correspondingly lower proportion. To some extent, public investment has historically been overstated due to misclassification of current expenditures as capital expenditures. Nevertheless, correction of this misclassification would reduce estimated public investment and total capital formation, but would not increase estimated private sector investment. Aside from 1988-89 and 2008, private capital formation has hovered between 10 and 16 percent of GDP (Figure 6).<sup>1</sup> Once depreciation is allowed for, private capital formation is on the low side for generating sustained annual economic growth in the range of 4-7 percent.

**Figure 6- Private Sector Capital Formation and FDI, 1985-2008**

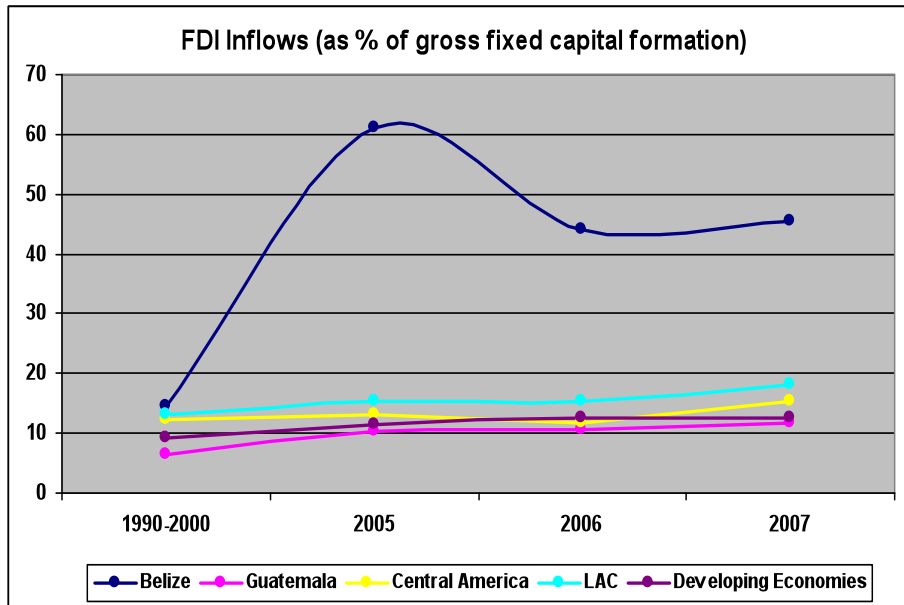


Source: SIB, MOF, Central Bank of Belize and IDB estimates.

Second, private sector capital formation has depended to a significant degree on foreign direct investment (FDI) (Figures 6 and 7). From 2005 to 2007, FDI was equivalent to 46 percent of gross fixed capital formation in Belize, compared with an average of 13 percent in Central America. The stock of FDI in Belize has also been higher relative to its economy than that of its neighbors. In 2007 the FDI stock was US\$831 million in Belize, equal to 65 percent of its GDP, substantially above that of neighboring Guatemala (19 percent) and Latin America (30 percent).

<sup>1</sup> Official national accounts data do not decompose capital formation between the private and public sectors. “Private sector capital formation” has been estimated as gross capital formation minus government capital expenditures.

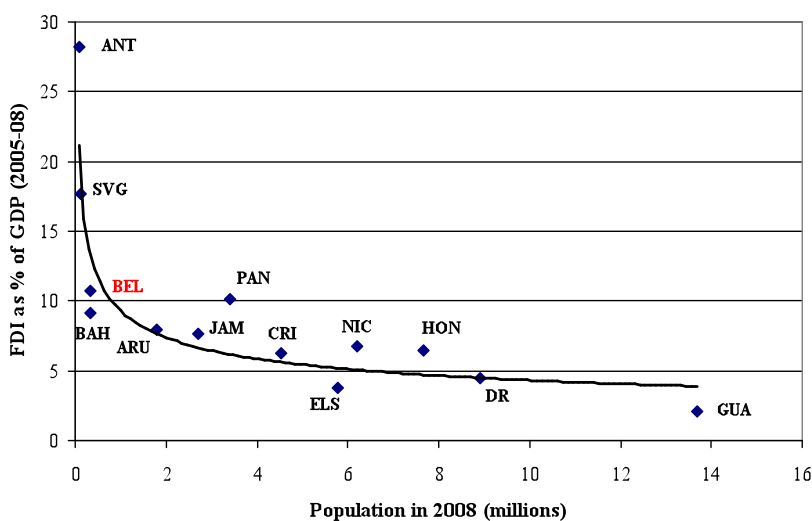
**Figure 7- FDI Inflows, 1990-2007**



*Source:* World Investment Report 2008, Country Facts: Belize – United Nations Conference on Trade and Development (UNCTAD)

Such dependence on FDI is a double-edged sword. On the positive side, it illustrates that Belize has been successful in attracting FDI. From 2004 to 2008, FDI inflows averaged US\$130 million annually; in 2008 FDI reached 13.2 percent of GDP due to a surge of investment in tourism-related real estate and electricity generation capacity. However, it is expected to have declined significantly in 2009. FDI tends to be large-scale (relative to domestic investments), in capital intensive activities, and, although not exclusively, in foreign exchange earning activities. According to the U.S. embassy, 185 U.S. companies have operations in Belize. For the period 2005-2008, Belize was the leading recipient of FDI, relative to GDP, in Central America. However, its FDI levels have not been elevated compared with other small Caribbean states and is roughly in line with what would be expected for its population size (Figure 8).

**Figure 8- FDI and Population Size**



Source: IMF International Financial Statistics and WEO.

On the negative side, the high share of FDI in total private investment indicates the weakness of domestic private investment. As per the Belize Growth Diagnostic (Hausmann and Klinger 2008), domestic investment appears to be constrained by issues that do not hold back FDI.

## **Economic Policy Framework**

In general, Belize's economic policy framework has been characterized by its stability, continuity, and predictability. Major macroeconomic parameters of importance to the private sector have been either fixed (e.g., exchange rate with respect to the U.S. dollar) or varied little (e.g., nominal interest rates). However, this stability and predictability has been less the case with respect to regulation and institutional structures in the utilities, which has been a problematic area for Belize.

### ***Exchange Rate Policies***

The private sector has long enjoyed stability and predictability with respect to the most important price in a small, open economy – the price of foreign exchange in domestic currency. Belize's currency has been pegged to the U.S. dollar since 1976, and long-run inflation has been one of the lowest in Latin America and the Caribbean. There has been a trend of gradual real

exchange rate depreciation since the late 1990s, due to the depreciating U.S. dollar, and the IMF estimates that the real effective exchange rate is not far from its equilibrium level.<sup>2</sup>

Capital account restrictions are relatively extensive, compared with other countries in the region. These restrictions have served to insulate Belize from volatile capital flows and speculative attacks on the exchange rate peg. It is unclear to what extent such restrictions hamper private sector activity. Belize does not maintain restrictions on current payments or multiple currency practices (IMF 2009). The central bank is not engaged in selective sales or rationing of foreign exchange to the private sector and there does not appear to be an unsatisfied foreign exchange demand from commercial banks. There is currently no rationing of foreign exchange, but there have been incidents of queuing in the recent past. In 2005 a large foreign investor had to keep BZ\$24 million for more than a year before he was allowed to exchange this money into U.S. dollars and transfer it abroad.<sup>3</sup> Under the CARICOM Single Market and Economy (CSME) agreement, which entered into force on January 1, 2006, Belize is required to liberalize the movement of capital with its CARICOM partners. However, this might pose macroeconomic risks in the context of Belize's current exchange and monetary arrangements and it is unclear whether or how fast it will be implemented.

### ***External Trade Policies***

In spite of the country's dependence on trade, the trade policy framework imposes significant costs on trade, distorts private sector decision-making, and creates an anti-export bias. The average tariff rate in 2006 was 11.3 percent, which is on the high side for private sector activity.<sup>4</sup> International transactions are a critical tax revenue source for Belize, amounting to about 28 percent of total government revenue over the past five years. The cost of trade with Belize is further affected by restrictive licensing rules for the import of some products. Import licenses are imposed to protect certain producers. Overall, the policy restrictions on imports increase input costs for domestic producers, while boosting the returns from supplying the domestic market, thereby creating an anti-export bias. They also create strong incentives for the private sector to

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<sup>2</sup> "Belize: 2009 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion by the Executive Director for Belize", IMF Country Report no 09/155, May 2009.

<sup>3</sup> The company in question – a U.S. owned flour mill – imported U.S. dollar-denominated inputs but received Belize dollar revenues. The consultants are not aware that companies whose revenues and earnings are U.S. dollar denominated have faced like restrictions.

<sup>4</sup> "Belize: Exporting for Growth – Trade Sector Policy Note," IDB, 2008.

seek to avoid such costs and increase the demand for exemptions through incentive arrangements (see below).

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

Consequently, Belize’s exports are still heavily skewed toward preference scheme destinations rather than fellow CARICOM members or Central American neighbors (Table 2). The United States is the largest destination for Belize’s exports, accounting for 42 percent in 2006. Exports to the European Union comprised more than 31 percent of total exports in 2006, although they have been decreasing as a share of total exports, partly due to the decline in sugar exports. Trade with Caribbean countries has been increasing, but still makes up only 8 percent of Belize’s exports. Exports to Central America have experienced the largest growth between 2000 and 2006, largely because of petroleum exports. Belize’s preferences are being eroded, and the shift in trading patterns away from traditional markets and toward Central America and Mexico is likely to continue over the medium term.

**Table 2- The Destination of Exports and Origin of Imports, 2007**

<b>Destination of exports 2007</b>	<b>Percent of total</b>	<b>Origins of imports 2007</b>	<b>Percent of total</b>
United States	40.6	US	33.8
United Kingdom	27.1	Central America	20.0
CARICOM	8.2	Mexico	9.6
Mexico	7.5	CARICOM	2.1

*Source:* 2009 Index of Economic Freedom, Belize country profile – Heritage Foundation.

Integration initiatives include CARICOM, Central American Integration System, Plan Puebla Panama, the Caribbean Single Market and Economy, and a number of free trade and partial scope agreements with countries in Latin America and Central America.

International trade is the responsibility of the Ministry of Foreign Affairs and Foreign Trade and is overseen by the Directorate of Foreign Trade, which is comprised of about five people. The Belize Agricultural Health Authority oversees safety certification of Belize's food products, including exports. The Belize Trade and Investment Development Service (BELTRAIDE) is mandated to promote foreign investment and trade. It is tasked with identifying new markets for exports, and in principle offers support for traditional exporters, advises the government on trade promotion, and provides trade data. However, like other public institutions, BELTRAIDE is resource constrained in executing its functions.

There is room for improving trade procedures. It takes about 21 days to export goods out of Belize – the 97th fastest of 183 countries.<sup>5</sup> In terms of paperwork required to export, Belize requires 7 documents on average, somewhat more than best practice countries, which require 4 or 5 documents, but better than the worst performing countries, which require 10-13 documents.

### ***Incentive Schemes***

A fiscal incentive is a government policy that usually comes in one of two basic forms. One involves *making cash outlays* and is more commonly found in richer rather than poorer countries. The other variety of fiscal incentive involves *foregoing (or delaying) a financial receipt*. Fiscal incentives in most developing countries, including Belize, are of the second variety. In these countries, cash outlays would likely be seen as “costing too much” although the opportunity cost of a non-cash incentive could be just as high as or higher than the cash alternative. It can also be easier to get legislatures to approve non-cash incentives because they would normally not need to be included as a line item in a government's budget. Thus, their true cost can effectively be hidden, avoiding public scrutiny.

In Belize, there are at least seven main acts or programs involving fiscal incentives:

- Export Processing Zone
- Fiscal Incentives Act

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<sup>5</sup> Doing Business 2010, IFC.

- Commercial Free Zone (Act of 1994)
- Retired Persons Incentives Act
- Offshore Banking Act of 1996
- International Business Companies Act
- Trusts Act

The most important programs are the Export Processing Zones (EPZs) and the Fiscal Incentives Act, which are discussed in detail below. The EPZ program is one of the largest fiscal incentives programs, but also presents some serious problems. Specifically, portions of the EPZ program make it virtually impossible to defend the country from contraband. The Fiscal Incentives Act is also a large program. BELTRAIDE, the organization formally recognized by the government for its trade and investment promotion role, manages the Fiscal Incentives Program for the government, reporting to the Ministry of Economic Development. It also coordinates with the Belize Tourism Board (BTB), which oversees the implementation of Belize's tourism policies.<sup>6</sup>

#### *Export Processing Zones*

According to an official pamphlet, "the EPZ Program in Belize is intended to attract both local and foreign investment to boost production for export, with a focus on manufactured goods and non-traditional agricultural products." The package of incentives offered under the EPZ program is generally considered the most extensive and generous of all the country's incentives programs. In cases where an investor would qualify for more than one program, the EPZ program is the one usually selected (Box 1).

Belize offers two varieties of Export Processing Zones. The first is a "traditional" EPZ where more than one – usually several – enterprises operate within a fenced-in area subject in principle to strict controls over what goes in and out, the provenance of inputs and the destination of outputs. EPZs of the traditional kind import a variety of inputs that usually are not available locally, add labor, and sell the output for hard currency abroad. The second variety is an in-site EPZ where, in effect, the zone comes to the enterprise rather than vice versa.

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<sup>6</sup> Belize Trade and Development Investment Service Act, BELTRAIDE.

### **Box 1. Benefits for Export Processing Zones (EPZs) in Belize**

- Full import and export duty exemptions
- Exemptions from capital gains tax; property and land taxes; excise, sales, and consumption taxes; taxes on trade turnover and foreign exchange; and transfer taxes
- Business tax holiday of 20 years with an option to extend and deduct losses from profits
- Dividend tax exemption in perpetuity
- Opportunity to open foreign currency bank accounts in Belize and abroad
- Opportunity to sell, lease, or transfer items, goods, and services within an EPZ
- Customs inspection at the zone for expediency
- Exemption from the Supplies Control Act and regulations
- No import restrictions on raw materials
- No import or export licensing requirements
- No trade licenses

Belize still has some traditional EPZs but they are something of a dying breed because fewer and fewer of the kind of businesses that use them, like garment manufacturing and light industry assembly factories, can afford Belize's high labor and utility costs. The in-site EPZs are more popular. They are mainly used by the producers of aquaculture and non-traditional agricultural products, enterprises where the business by its nature is tied to a specific location and cannot relocate.

There are some arguments in favor of EPZs. Poor countries can provide on a turn-key basis the levels of service and infrastructure needed to attract an investor that the country as a whole could not afford to do. EPZs can sometimes generate backward linkages, whereby domestic producers gradually take over responsibility for the production of the formerly imported inputs. A key assumption underlying a backward linkage strategy is that the domestic substitutes are at least as good as or better than (or can become so with reasonable effort) the foreign inputs they replace.

A practical argument in favor of traditional EPZs is simply that in most countries, and certainly in Belize's corner of the world, "everybody else is doing it." Once competition along these lines is started, there is a collective action problem and countries find it difficult to escape, although every country loses in the aggregate. Brazil is an example of a country that faced "race

for the bottom” competition of this nature as individual Brazilian states and cities competed with one another for the location of large international auto assembly plants. Subsequently, Brazil applied probably the only successful technique for escaping these mutually destructive competitive patterns: the *force majeure* of the national government using its sovereign authority to impose common standards and limits on state level competition.

Despite these considerations, most analysts find that the disadvantages associated with EPZs tend to outweigh their benefits. They create a two-tiered market that does nothing to eliminate but in fact “protects” systems of national protection.<sup>7</sup> They are complex to administer and therefore can give rise to opportunities for bribery and corruption.

In conclusion, the traditional EPZs do provide the country with some employment opportunities for low skilled, low wage labor, and a modest amount of foreign exchange earnings. The same cannot be said for the in-site EPZs. The development purpose of this program – fostering the development of non-traditional agriculture – is important and legitimate and indeed one of the key elements in a private-sector led, export-oriented growth strategy. However, their offsetting disadvantage – that they are essentially defenseless against contraband – is serious enough that an effort to find alternative ways to provide equivalent support would be worth making.

#### *Fiscal Incentives Act*

According to the Fiscal Incentive Act’s designated Administrator, BELTRAIDE, the Act is “designed to encourage genuine investment in Belize through tax holidays and duty exemptions.” The Act provides both existing and prospective investors with the legal and fiscal framework to stimulate productive economic activities. As described in Box 2, the Fiscal Incentives Act offers a combination of duty exemptions and tax holidays.

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<sup>7</sup> The small island economy of Mauritius is often held up by economists as an example of good practice because, rather than segregating EPZs from other economic sectors, the government declared that the entire economy would operate as a free trade zone.

## **Box 2. Incentives under the Fiscal Incentives Act**

### **Tax Holidays**

- Tax holiday for 5 years from date of production
- May be renewed for a further term of 10 years
- Tax holiday of up to 25 years for companies in agriculture, agro-industrial products, mariculture, food processing, and manufacturing centered on export and highly labor intensive techniques
- Exemption from income tax including repatriation of profits and dividends

### **Duty Exemptions**

- Exemption of 15 years to companies granted an approved enterprise order
- Renewable for a further term of up to 10 years
- Exemption of 25 years for companies engaged in agriculture, agro-industrial products, mariculture, food processing, and manufacturing with operations centered on export and highly labor intensive techniques
- Items exempted from import duty and revenue replacement duty include:
  - Building materials, plants, machinery, equipment including specialized tools, utility and transport vehicles, fixtures and fittings, office equipment, and appliances
  - Spare parts for plants, plant related machinery, and agricultural machinery
  - Any raw materials or other items for the sole usage of the approved enterprise

In 2002 the Fiscal Incentives Act was amended to encourage investment in small and medium enterprises (SMEs) through partial or full duty exemptions. Forty-six SMEs have benefited under this incentive program.

The administration of the Fiscal Incentives Act is one of the chief responsibilities of BELTRAIDE. Applicants for fiscal incentives are directed to BELTRAIDE, which conducts an investigation and forwards its recommendation to a committee composed of the Economic Cabinet. According to BELTRAIDE officials, BELTRAIDE's advice is followed in the great majority of cases, although there is no obligation on the part of the Cabinet (or the Minister in charge, acting alone and on his sole authority) to do so. Although it appears to be less the case today, historically a pattern of applicants seeking out a Minister or other high government for the award of a fiscal incentive seems to have been common and the terms of a concession were usually not known to the general public. Some of the procedures set forth in the Fiscal Incentives Act appear to be largely ignored, such as the proviso in Section 3 subsection (2) that every order

(for the grant of a fiscal incentive) “made by the Minister shall, as soon as may be after the making thereof be laid before the National Assembly and shall be subject to negative resolution.”

The Fiscal Incentives Act is flawed in several respects. In a departure from what has come to be accepted as good practice, the Act does not provide clarity on what activities will qualify for incentives and which will not (although it does single out certain activities for special treatment). Ultimately, an “approved activity” can be anything the relevant Minister says it is. To avoid this kind of uncertainty (and the opportunities for bribery that it creates), many countries have turned to creating a negative list of activities that will be ineligible for incentives. Activities not so included would then be eligible for consideration, provided they meet any other conditions the government sets.

The Fiscal Incentives Act contains a number of requirements that, although theoretically sound, would be difficult if not impossible to monitor. For example, during the period in which an activity benefits from a tax holiday, dividend and other distributions are exempt from applicable taxes, but only to the degree that they do not “exceed an amount which is equivalent to the total amount invested by the shareholder in the approved enterprise during its tax holiday period.” The task of monitoring compliance with this requirement falls on the Comptroller of Customs, whom, it is probably fair to say, has more than enough other things to do without adding this to the list of responsibilities.

### ***Policy Framework for Foreign Direct Investment***

Belize is generally open to foreign investment and full foreign ownership of business is legal. There is a short “negative list” of activities reserved for Belizeans, but the presumption (which should be formalized in the Investment Law) that activities not so listed are fair game for all investors, foreign and domestic, needs to be ascertained. The 1990 International Business Companies Act allows international investors to engage in “offshore” transactions such as: asset protection and operation of bank accounts, brokerage accounts, ship ownership, and commission arrangements. The 1992 Trusts Act provides for onshore and offshore trusts. The International Financial Services Act promotes financial services abroad.

### ***Regulation and Competition Policies***

One of the largest policy challenges relates to the interaction of the private and public sectors and the public sector's regulation of private sector provision. As noted above, Belize's small size lends itself to the formation of monopolies and anti-competitive practices. The government's necessarily small size and limited resources complicate the task of regulation and protection of consumers. The industrial country model of anti-monopoly legislation is inappropriate for a small country like Belize. It would take a large administration to monitor and enforce such legislation. For pure private goods, the most effective and least cost way for Belize to avoid monopolies and ensure that prices are competitive is to reduce tariff and non-tariff barriers to trade to enable adequate competition.

The situation with utility industries is more complicated because of tendencies toward natural monopoly. The Public Utilities Commission (PUC) was founded in 1999 to ensure the delivery of quality services at reasonable prices. It regulates these utilities and is responsible for granting licenses to companies and ensuring their compliance with the terms of the licenses. It also regulates Belize Electricity (BEL), which is the main generator, distributor, and transmitter of electricity in Belize. And it regulates telecommunications and sells licenses to private companies. Conflicts have been prevalent between ensuring operators sufficient rates of return to operate viably and invest in improvements (large, upfront investments are the norm in the capital-intensive utility industries) and protecting consumers from high prices. Since all businesses depend to varying degrees on reliable and economical provision of water, electricity, and telecommunication services, the institutional arrangements and regulation of the utility sectors is a factor in private sector development.

### ***Privatization Policies***

The government has made several attempts to reduce the role of the state through privatization, particularly in the late 1990s and early 2000s. The privatizations met with mixed success, in some cases generating large transactions costs for the state, and sometimes even resulting in re-nationalization. Some of these arrangements were subsequently challenged on the grounds that the terms granted to the private owners were opaque and not widely understood, and in any event too generous.

In 2001 the government privatized the Water and Sewerage Authority (WASA). After a substantial increase in water rates, the government felt obligated to purchase back the majority of WASA's shares to limit water rate increases. The government continues to subsidize WASA by foregoing its dividend payments, but allowing those to the private shareholders (see Box 3).

### **Box 3. Mixed Results of Privatization of the Water and Sewerage Authority**

The Water and Sewerage Authority (WASA) was a statutory body in the 1990s. Preparation for privatization started in 2000, and privatization took place in 2001. CASCVAL – an Anglo Dutch company – bought 83 percent of the shares. CASCVAL got what was in effect an opt-out clause: it could do an additional 10 months of due diligence following the signing of the purchase agreement. The basic deal was a “guaranteed” rate of return of 15 percent after applying a defined set of adjustments (inflation, exchange rate, etc.). At the first opportunity for a rate increase, CASCVAL asked for 32 percent increase. The commission responded with 15 percent, and an outside arbitrator set the fair rate increase at 17.5 percent. When it was clear that the public had difficulty tolerating the rates awarded in arbitration, the government bought back the CASCVAL share. Seventeen percent of shares are still held by outside shareholders: 10% by the Social Security Board and the remainder by 6,000 individuals. In order to pay the agreed upon 15 percent dividend and service the Water Authority's debt, the government has basically had to subsidize the operation by foregoing its own dividends.

Privatization and institutional arrangements in the telecommunications sector have been similarly problematic. The *Belize Telephone Company, Belize Telephone Limited (BTL)*, was privatized in various stages, starting in 1987. Various attempts to stimulate competition in the sector were also made, with limited success and some setbacks. Infrastructure is state-of-the-art but the balance between adequate guarantees to private sector owner-operators and low cost, high quality service for consumers was again an issue.

*Belize Electricity Company (BEL)*, which is majority owned by the Canadian company FORTIS, has a monopoly over electricity distribution and a dominant position in electricity generation. BEL and the PUC have frequently disagreed about appropriate electricity rates, which are the highest in the region (13.4 cents per KW/hr). The high prices may be partly due to

the cost of generation and transmission for such a small population, but could also be partially the result of insufficient competition.

The government privatized the *Port of Belize City* in 2002. The expectation was that port charges would decrease. Instead they have increased. Again, part of the reason may be that there was little or no competition. Moreover, the port infrastructure was only selectively improved. The port company has concentrated its investment in improving infrastructure for the high margin tourism industry (cruise ships) rather than the lower margin freight traffic.

The *General Commercial Registry* used to be a government-run function of registering share ownership. The Registry would collect a 5 percent transfer tax on any change in share ownership, partially to finance its costs and not to rely on the government budget. This is quite a high rate (relative to developed countries) that may deter transactions and compliance. In fact, the transfer tax has not been collected consistently. After this function was privatized in about 2002, a law firm was in charge. But it rarely collected the tax; the papers were typically signed, then held by the law firm so that a transfer never actually took place. This function was taken back by the government after some time.

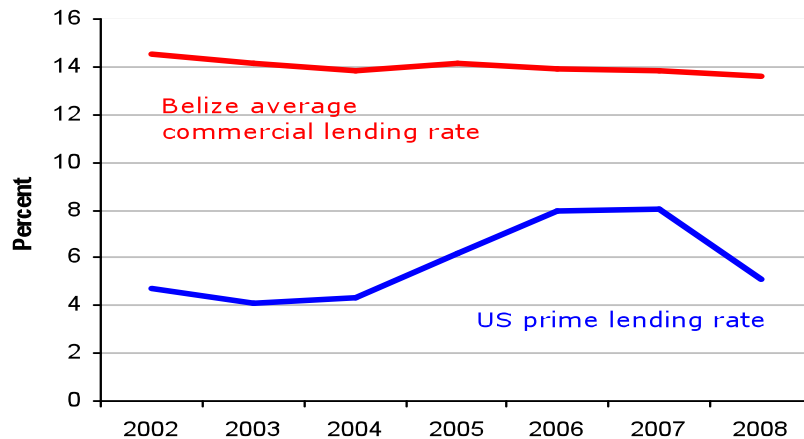
## **Factors of Production**

### *Capital*

#### *The Cost of Credit*

The clearest difference between the conditions for foreign and domestic investment – and an explanation for the respectable FDI rate coexisting with a relatively low domestic investment rate – relates to the high cost of capital. Belize’s domestic interest rates for commercial loans are much higher than those in the United States and other small, open Caribbean countries with similar monetary/exchange rate arrangements (such as Bahamas, Barbados, and the Organization of Eastern Caribbean States) (Figure 9). Private sector development, particularly in the SME sector, is impeded by difficulties in obtaining affordable long-term capital for investments.

**Figure 9- Comparison of Interest Rates in Belize and the United States**



Source: Central Bank of Belize and IMF International Financial Statistics

Limited competition in the domestic financial system may account for part of the high cost of domestic credit. But this is likely not as important in explaining the high cost of credit as low national saving and fiscal/monetary interactions. Belize's monetary management is geared toward protecting the level of international reserves and the exchange rate peg. Furthermore, because the level of development of the capital market precludes monetary management tools like open market operations, the Central Bank controls the creation of credit by varying reserve requirements. The function of high reserve requirements is to drain excess liquidity from the commercial banks and limit domestic credit creation to a level that the Central Bank considers compatible with exchange rate stability.

Belize dollar liquidity can be created by the Central Bank financing the government and hence fiscal deficits that are financed by the Central Bank can lead to high reserve requirements and high lending rates. To the extent that credit flows to the public sector, this crowds out and reduces the available credit for the private sector. A reason for this high cost is the government's tendency over the years to run large fiscal deficits in combination with the existing monetary and exchange rate system. Banks generally cover the cost of this high reserve requirement by charging higher interest rates. Credit unions have a distinct advantage in not being subject to such reserve requirements.

### *Access to Credit*

In addition to the cost of credit for any domestic borrower, there is some evidence that access to credit is a problem, particularly for SMEs. For 2010 the World Bank Group's Doing Business rated Belize at 87 of 183 economies for the ease of getting credit in the country. This average is relatively respectable compared with Belize's scores on other indicators; however, it hides a bipolar division on the sub-components of the index. In terms of the legal framework for credit access, Belize rates extremely well. According to Doing Business, the laws regulating access to credit in Belize are better designed than the region's average as well as the average in OECD countries (Table 3). The strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending.<sup>8</sup>

By contrast, the inexistence of a credit registry in Belize gave the country zero ratings with respect to sharing credit information and lowered the overall ranking. Three indicators are constructed to measure the sharing of credit information:

- Depth of credit information index, which measures the extent to which the rules of a credit information system facilitate lending based on the scope of information distributed, the ease of access to information, and the quality of information.
- Public registry coverage, which reports the number of individuals and firms covered by a public credit registry as a percentage of the adult population.
- Private bureau coverage, which reports the number of individuals and firms covered by a private credit bureau as a percentage of the adult population.<sup>9</sup>

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<sup>8</sup> Doing Business 2010, country profile for Belize.

<sup>9</sup> Idem. Note: The Legal Rights Index ranges from 0 to 10, with higher scores indicating that those laws are better designed to expand access to credit. The Credit Information Index measures the scope, access, and quality of credit information available through public registries or private bureaus. It ranges from 0 to 6, with higher values indicating that more credit information is available from a public registry or private bureau.

**Table 3- Doing Business Ratings on Access to Credit**

Getting Credit in Belize			
Indicator	Belize	Region	OECD
Legal Rights Index	8	5.5	6.8
Credit Information Index	0	3.3	4.9
Public registry coverage (percentage of adults)	0	10.0	8.8
Private bureau coverage (percentage of adults)	0	33.2	59.6

*Source:* Doing Business Report 2010.

Credit registries – institutions that collect and distribute credit information on borrowers – can greatly expand access to credit. By sharing credit information, they help lenders assess risk and allocate credit more efficiently. And they free entrepreneurs from having to rely on personal connections alone when trying to obtain credit. Credit bureaus are clearinghouses for information about individuals. They gather and supply creditors with vast amounts of data about the financial status and personal information of individuals. They are considered one of the most important sources of information about the paying habits of consumers and play a central role in the development of financial markets. Individual files always include identifying information, such as the consumer’s full name and address. In addition, they normally include employment information, such as position, income, spouse’s income, place, length of employment (present and former), and other sources of income. A full credit history commonly appears, showing all existing lines of credit, payment habits, amounts, due dates, and more. Finally, the file includes significant public record information, including bankruptcies, tax and other liens, and lawsuits. The main source of this information is the public record. However, credit grantors themselves often provide the most valuable information.

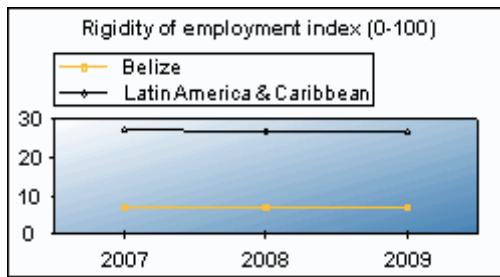
There are no credit bureaus operating in Belize at this time, partly because the market is very small and there is insufficient legislation. Legislation would be required to enable credit bureaus and commercial banks issuing credit cards to share the credit history of their clients with other qualified institutions while preserving the confidentiality of their clients’ data. Movable

assets –such as equipment, accounts receivable, and inventory – are not used as collateral, nor is a collateral registry available.<sup>10</sup>

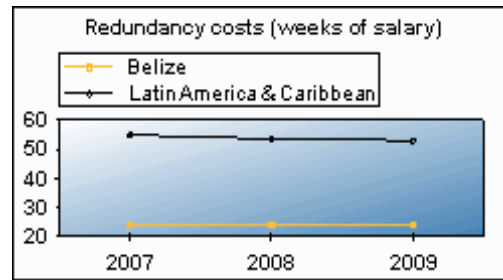
**Labor**

The conventional wisdom views Belize as relatively successful in maintaining labor market flexibility compared with the region and best practice countries. In the Doing Business indicators, Belize performs well (a ranking of 23 in 2010) in the category of Employing Workers – a calculation based on four indices showing the difficulty of hiring, rigidity of hours, difficulty of firing, and rigidity of employment. Wages are acknowledged to be relatively high but this is attributed to economic fundamentals, such as the abundance of natural resources relative to a limited labor supply.

**Figure 10- Rigidity of Employment**

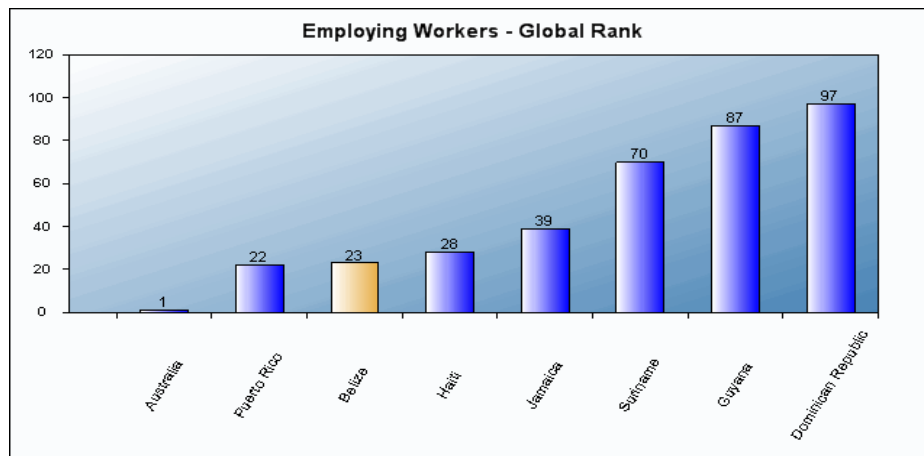


**Figure 11- Redundancy Costs**



Source: Doing Business 2010 country profile for Belize - World Bank Group.

**Figure 12- Employing Workers**



Source: Doing Business 2010 country profile for Belize - World Bank Group.

<sup>10</sup> Personal communication with business focus group at Chamber of Commerce, 2008.

However, the labor market may be less flexible in practice. And it is possible that relatively high labor costs may be due to institutional factors, such as active and powerful trade unions and minimum wage legislation, rather than natural economic forces. In January 2007, the Cabinet approved increasing the minimum wage rate for agricultural workers from BZ\$2.00 to BZ\$2.50 in 2007, to BZ\$2.75 in 2008, and to BZ\$3.00 in 2010; and increasing the minimum wage for shop assistants/domestics from BZ\$2.25 to BZ\$3.00.<sup>11</sup> An experienced mason or carpenter earns roughly US\$17-20/day, and their “helpers” earn as much as US\$12.50/day. Resorts in operation generally pay US\$10-12.50/day for general staff, but many remote locations provide meals and housing – and therefore pay less in actual cash.<sup>12</sup> Private companies in the tourism and agricultural sectors, especially small enterprises, are particularly sensitive to wage costs at the lower-skilled end of the labor market.

The persistence of significant unemployment – the unemployment rate is generally in double digits and did not fall below 8 percent even during the 2008 construction boom – and the sizeable informal sector (comprising about 16 percent of the labor force) suggest that the labor market functions less than perfectly.

Aside from direct and indirect labor costs, the private sector is also concerned about rigid working practices enshrined in legislation, which it views as ill-suited to the needs of a modern economy. The BCCI, the government, and the unions agree that it would be beneficial for all parties to modernize the labor legislation, including indemnifications, to adapt it to the needs of the private sector, especially the tourism sector.

Belize has a dual system for admitting foreign labor to enter the country. Professional workers from the CARICOM Single Market Economy (CSME) face no employment restrictions in Belize. There is a system of worker visas and entry permits for unskilled labor within and outside the CSME region. To hire skilled workers outside the CSME, the employer needs to show that there is no one in Belize with the set of skills needed to do the job – a test similar to the one used in the United States and other industrialized countries.

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<sup>11</sup> “Belize Regulatory Environment” LowTax.net, <http://www.lowtax.net/lowtax/html/jbzlab.html>.

<sup>12</sup> Casado Internet Group’s Belize Investment Guide “Doing Business in Belize” <http://ambergiscaye.com/economics/DoingbusinessBelize.html>.

According to the Commissioner of Agriculture, the system of permits and visas for unskilled agricultural labor (the main category of unskilled labor in the country) works reasonably well. Its main weakness is that when the visas expire, the workers frequently “go missing” in search of higher paying work. This might be especially true in the construction or tourism industries, jobs for which entry permits would be much more difficult to obtain.

### ***Land***

The existence of clear and easily defensible private property rights is essential for the development of the private sector, especially with regard to foreign investment. The ability to register property encourages investment and trade, and allows owners access to formal credit markets, thereby stimulating the private sector. Efficient property registration procedures reduce transaction costs and lead to wider formalization of property titles. Reform of registration procedures is associated with a perception of greater security of property rights and decreased corruption, which is especially important for the more vulnerable sectors of society, such as small-scale entrepreneurs, women, youth, and the low-income groups. However, high registration and transfer costs and lengthy procedure requirements discourage the acquisition of formal property titles and pose a challenge to the development of the private sector.

The government assures equal property ownership rights to citizens and foreign buyers. No special regulations and procedures are imposed on the acquisition of title deeds for foreigners. In fact, the government has established several incentive programs to attract foreign investment and less restrictive criteria for developers.

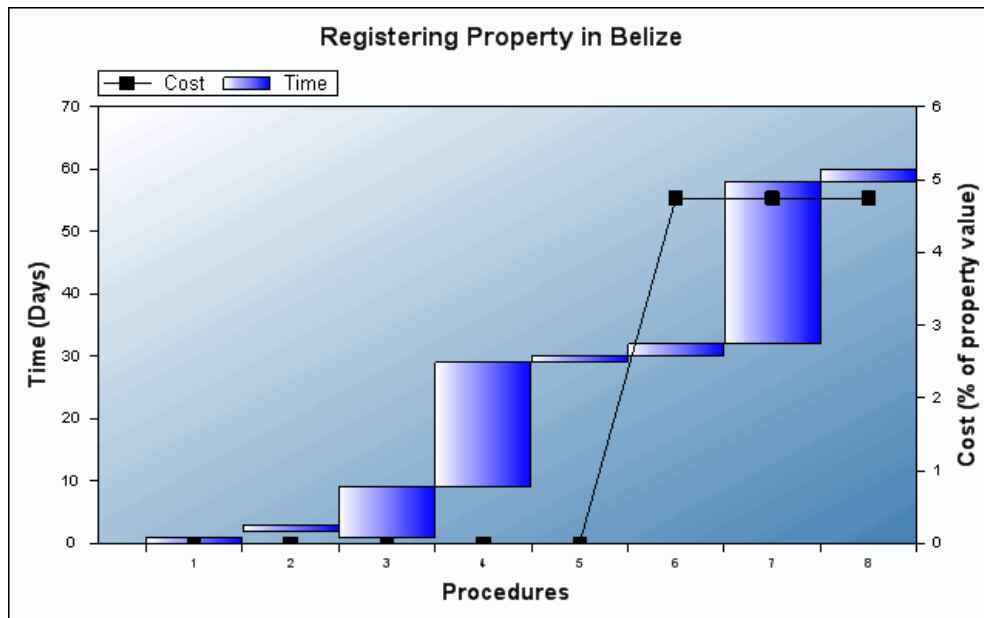
Land can be registered under four types of property titles: registered land title, transfer certificate of title, first certificate of title, or deed of conveyance. Transaction legal fees are about 2 percent of the purchase price and the purchaser pays for closing costs. The government collects a transfer tax of 5 percent of the purchase price upon transfer of ownership of any property. However, no capital gains or inheritance tax exists, so no additional fees are incurred upon sale or inheritance by either the previous or new owner. Taxes and fees are the same for citizens and foreigners.

Currently eight procedures are required for property registration in Belize:

1. Searching the Lands Department property registry to ensure that the proper title holder is conducting the sale
2. Obtaining tax clearance from the Lands Department
3. Getting the clearance stamped on the transfer document
4. Having the property valued
5. Having the Justice of the Peace attest the transfer document
6. Paying the registration fees and stamp duty
7. Registering the transfer with the Lands Registry
8. Notifying the City Council of the change of ownership

On average, the process takes about 60 days and costs about 4.7 percent of the total property value.<sup>13</sup> Figure 13 illustrates the time and cost of each of the required procedures.

**Figure 13- Time Required to Register Property**



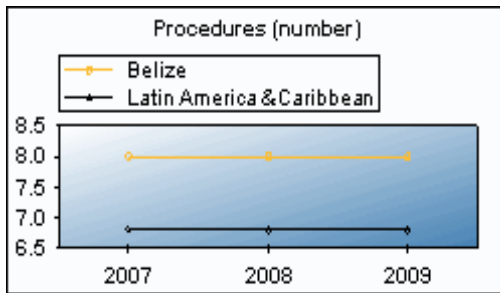
Source: Doing Business 2010 country profile for Belize - World Bank Group.

<sup>13</sup> Doing Business 2010, country profile for Belize, IFC.

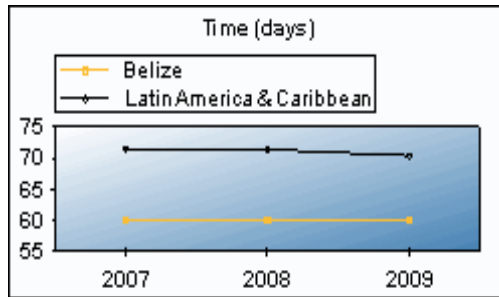
For ease of registration of property, Belize ranked 128 of 183 countries. Compared with the region, Belize requires more procedures for registration but the time taken is shorter and the cost is substantially lower (Figures 14 and 15).

### Registering Property Indicators, Regional Comparison

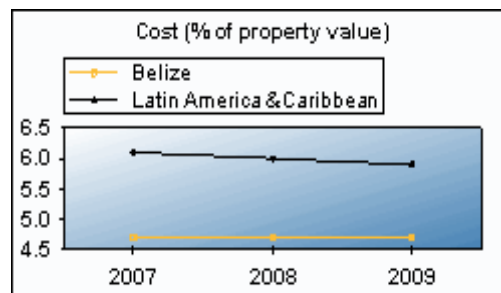
**Figure 14- Procedures**



**Figure 15- Time**

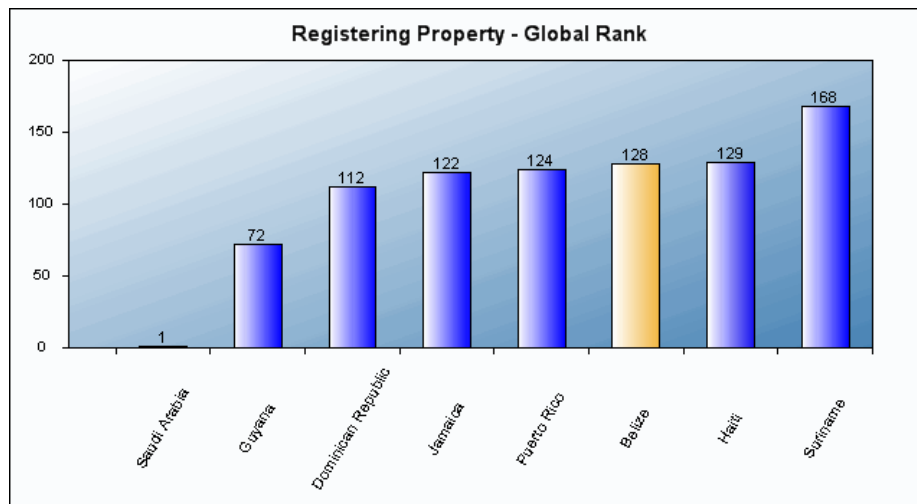


**Figure 16- Cost**



Source: Doing Business 2010 country profile for Belize - World Bank Group.

**Figure 17- Global Rank for Registering Property**



Source: Doing Business 2010 country profile for Belize - World Bank Group.

Property rights are uncertain in some areas of the country due to longstanding disputes regarding the legal status of Maya lands in southern Belize. In a September 2007 decision, Chief Justice Conteh ruled that the Maya villages and their members hold collective and individual rights to the lands and resources they have used and occupied according to Maya customary practices, and that these rights constitute “property” under the Belize Constitution. He ordered the government to “determine, demarcate and provide official documentation of Santa Cruz’s and Conejo’s title and rights in accordance with Maya customary law and practices, without prejudice to the rights of neighboring villages.” He also ordered the government to cease and abstain from any acts that may affect the existence, value, use, or enjoyment of the property located in the geographic area occupied and used by the Maya people of Santa Cruz and Conejo without their informed consent. These acts include issuing leases, grants, or concessions for resource development, including seismic exploration and oil extraction.

More broadly, some sections of the private sector, notably the tourism industry, lament the absence of a national land use plan that provides medium and long-term stability and predictability to land and subsoil use, and sets and guides the levels of tourism, light and heavy industry, etc. A land plan is of particular interest to the various interest groups representing the Belize tourism industry, and would certainly be of keen interest to any “anchor” tourism investors who may yet be induced to invest in Belize.

In addition to its land usage or zoning function, a national land plan could also be the vehicle for establishing transparent rules and regulations and other conditions for how the government would dispose of its own still very considerable (estimates vary widely) stocks of land.

## **Physical Infrastructure**

Physical infrastructure is an important public good that underpins private sector activity. Deficient infrastructure can reduce competitiveness through increased costs and threaten long-term economic growth. Many of those interviewed in Belize find the lack of quality infrastructure, particularly roads and ports, as a factor inhibiting the growth of the private sector. This section draws on the Belize Transport Sector Study (IDB 2007).

Belize has one of the lowest population densities in the world and its areas of production are scattered throughout the country and often far from its three ports. Therefore, adequate transportation is crucial to the development of the country's export sector. The existence of a proper road infrastructure in Belize is one component for improving the access of its products to the international markets. At the same time, infrastructure provision is inherently a challenge in Belize given the low population density and high per unit costs.

Belize's highway system has 3,281 km of roads, of which 573 km are main roads or highways, 765 km are secondary roads, and 1,943 km are rural roads. About 658 km of these roads are paved, 1,423 km are gravel, 1,000 km are marl, and 200 km are earth.<sup>14</sup> An extensive construction program funded by the government, starting in the early 1980s, as well as improvement projects funded by international aid, have led to significant improvements in the road network. Paved highways connect most major urban settlements and border areas. However, the situation is difficult in rural areas, where many roads remain unpaved or have gravel or marl surfaces. Compared with other countries in the region, Belize has a low percentage of roads paved to total roads: 17 percent. Jamaica has 70 percent paved, but Costa Rica has only 22 percent (Table 4).<sup>15</sup> Obviously this is only one of many indicators and may give an unduly negative picture because of the high proportion of marl roads.

**Table 4- Share of Paved Roads in Total Roads, 2000**

<b>Roads, paved 2000 (percent of total roads)</b>	
<b>Country</b>	<b>Number of roads</b>
Belize	17
Costa Rica	22
Dominican Republic	49
Guatemala	34
Jamaica	70

*Source:* World Development Indicators, April 2009, World Bank.

<sup>14</sup> IDB Transport Sector Study (2007).

<sup>15</sup> Economic Intelligence Unit Belize Country Profile, [http://www.eiu.com/index.asp?layout=displayIssueArticle&issue\\_id=1582579943&article\\_id=1852579970](http://www.eiu.com/index.asp?layout=displayIssueArticle&issue_id=1582579943&article_id=1852579970).

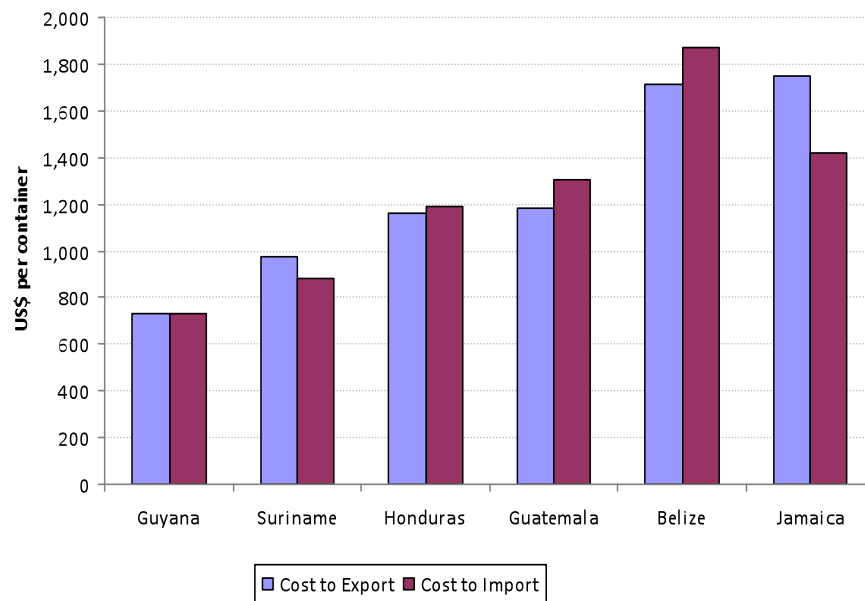
The domestic freight transport market is basically unregulated. Belizean truckers have been given a monopoly over operations in the country. Foreign truckers are restricted to international transit traffic. Shipment by road is expensive, due to relatively short transport distances, small freight flows, and often poor road conditions.

Inadequate funding of road maintenance has caused deterioration in road conditions. This not only makes transportation of goods more expensive, but it will likely make much more expensive road reconstruction programs necessary in the future.

Belize has three ports: the major port in the country, Belize City Port; Commerce Bight Port, just outside Dangriga; and Big Creek Port. Belize City Port handles an increasingly high traffic of cruise ships, in addition to exports and imports. It has leased Commerce Bight Port for the past 30 years. Only Big Creek Port, which is used primarily for the export of bananas, is not under its control. The port is owned by Toledo Enterprises Limited, a private company set up by banana merchants. Belize City Port, which is the primary destination of incoming cruise ships, is currently undergoing an extension project to make it better able to handle tourism. The relatively high port charges, which have gone up since the 2002 privatization, are a constraint to private sector growth.

The high cost of maritime transport is a deterrent to private sector activity. In Belize the costs of exporting and importing are exceedingly high, at US\$1,710 for an outbound container and US\$1,870 for an inbound container. The inbound container is more expensive because more is imported than exported, so some containers leave Belize empty. However, the costs of exporting and importing in Belize are far higher than those of the OECD average and double those of other small, low population, natural resource based economies, such as Guyana and Suriname (Figure 18). Scale economies may explain some of these costs, but they are not immutable. The costs of exporting and importing in Guatemala have dropped significantly since 2007, when they were US\$1,783 and US\$1,985, respectively. It could be useful to study the case of Guatemala, both to find out what made its costs drop so precipitously and to explore whether its success could be replicated in Belize.

**Figure 18- Costs of Exporting and Importing a Container, 2009**  
*(US\$ per container)*



*Source:* Doing Business Report, 2010 – World Bank Group.

Belize has one international airport – the Philip S.W. Goldson International Airport (PGIA), located 16 km outside Belize City. Privatization of the airport has generally been deemed a success. Its runways have recently been extended in order to accommodate larger jets and several other projects are underway to improve the airport’s capacity with a view to diversifying the sources of tourism to Belize. Currently an estimated 500,000 passengers per year travel through this airport. The airport is therefore a strong point in Belize’s infrastructure, currently having sufficient capacity and generating revenue to cover costs. A second international airport, located in Placencia, is expected to open in 2010.

However, the position is less favorable regarding municipal airports, which are a critical element of infrastructure for the tourism industry. Municipal airports lack the ability to receive planes after dark, which limits connectivity with international flights and sometimes obliges tourists to overnight in Belize City.

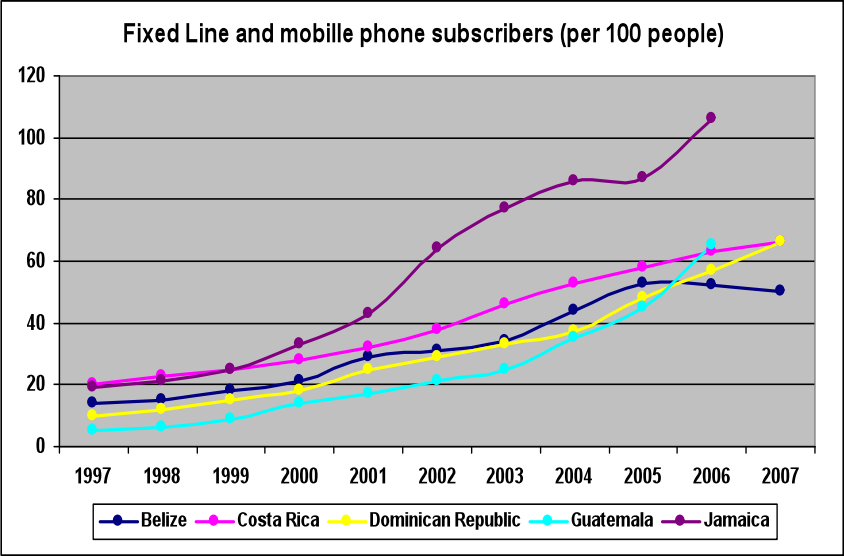
The most critical infrastructure deficiency for the long-term sustainability of the tourism industry relates to sanitation and solid waste management. The natural beauty of the coastal zone area, especially the barrier reef, is one of the biggest attractions for tourists. However, these

assets are fragile and could be easily degraded if liquid and solid waste management infrastructure lags too far behind tourism development.

Telecommunications in Belize are state-of-the-art and internet access is good, but prices remain high. In 2005, in addition to its DSL wired service, BTL began providing high-speed wireless access to large hotels, airports, and other transit ports, and later expanded that service to other parts of the country.

Partly because prices are high, the penetration of telephones has lagged in Belize. Although Belize was ahead of the Dominican Republic and Guatemala in the decade up to 2005, it subsequently slipped behind these two countries. There has been a small decline in penetration since 2005, while other countries in the region have seen increases.

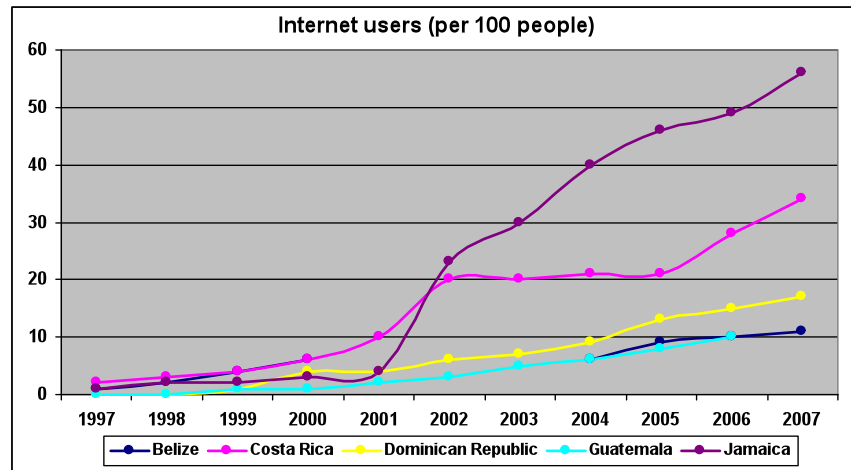
**Figure 19- Phone Penetration in 1997 to 2007: Falling Behind**



Source: World Development Indicators, April 2009, World Bank.

Internet use is not prevalent in Belize: only 9 users in 100 people have internet access, lagging many countries in the region, including those with lower per capita incomes.

**Figure 20- Internet Usage**



Source: World Development Indicators, April 2009, World Bank.

## Legal Framework for the Private Sector

An effective, low cost legal framework governing business transactions is central to the smooth and efficient functioning of the private sector. There are different regulations pertaining to the start-up of a business, the operation of a business, and the closing of a business. There are also different forms of business meeting different objectives from an ownership perspective and a tax treatment perspective: mainly partnerships, sole proprietorships, and corporations. The objective of the regulator should be to ensure the economic efficiency of the regulations that help define the operation of a business with other businesses and individuals as well as the relationship with the government (mainly taxes and legal aspects). The regulator also needs to keep in mind how it will enforce the regulations. This section examines the framework for business operations.

Like other English-speaking CARICOM countries, the legal system in Belize closely models the British system of law. This remains the case long after independence with the exception of some amendments and supplementation by local legislation. No major codifications of the common law exist, so a series of separate statutes and judicial interpretations govern legal areas, such as civil procedure and commercial and criminal law.<sup>16</sup> Appeals are made to the court of appeal, which was established in 1968. Until 2001, they were also made to the Judicial Committee of the Privy Council in the United Kingdom. After that year, Belize, along with ten

<sup>16</sup> Georgetown Law Foreign Law Guide, Belize.

other Caribbean nations, ratified a treaty establishing the Caribbean Court of Justice—the regional judicial tribunal that was to replace the Privy Council.<sup>17</sup> However, the Caribbean Court of Justice has more than just appellate jurisdiction; it possesses original jurisdiction over the interpretation and application of the Treaty Establishing the Caribbean Community.<sup>18</sup>

Belize is one of 140 member states of the International Centre for Settlement of Investment Disputes, an autonomous international institution established to provide facilities for conciliation and arbitration of international investment disputes.

Company law provides the foundation for the formation, operation, and dissolution of businesses. An effective legal framework supports contracting, dispute resolution, and the financing of firms. The Belize Companies Act – CH. 250 is the main source of company law in Belize.<sup>19</sup> The Companies Act, which dates back to 1909, was last revised and updated in 2003, but it continues to be outdated and revisions have been sporadic and incomplete. For example, the typical amount of a penalty meant to deter illegal activities is a fine of BZ\$25 per day. The Act also references the rights of women married before a certain date in the late 19th century. A new Companies Act has been in the works for a couple of years.

The consistency of application and enforcement of the laws and regulations that govern the private sector is also an issue. For example, the Finance and Audit Act stipulates that a company in Belize should provide audited financial statements within six months of the close of a financial year. This seldom actually occurs, and there is no penalty for non-compliance. A weak legal culture may deter foreign investment and is therefore an impediment to private sector growth.

Under Belizean law, business ownership can take the following forms: private company, limited liability partnership, limited life company, joint venture or cooperative, partnership, sole proprietor, public investment company, trust fund, and international business company (IBC). The IBC is the most popular business form in Belize for offshore companies, and is often used in conjunction with a trust fund (Box 4). This is a vehicle by which Belize tried to attract offshore business, similar to that of the Cayman Islands and other offshore centers.

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<sup>17</sup> Encyclopedia of the Nations, Belize: <http://www.nationsencyclopedia.com/Americas/Belize-JUDICIAL-SYSTEM.html>.

<sup>18</sup> Caribbean Court of Justice: <http://www.caribbeancourtjustice.org/about.htm>.

<sup>19</sup> Belize Companies Act - Chapter 250, 2003 Edition: <http://www.privacy-solutions.com/Belize%20Companies%20Act.pdf>.

#### **Box 4. International Business Company (IBC)**

The formation of an IBC is regulated by the International Business Company Act of 1990 by filing Articles and Memorandum of Association along with the required fees. The law outlines the characteristics of an IBC: no minimum paid up capital is required, and capital may be reported in foreign currency. An IBC may issue bearer shares and shares of no par value, but bearer shares must be held in the custody of a local registered agent. Subscribers may include an individual, a corporation, or a Trust. A company may have nominee shareholders using local licensed registered agents. There is a minimum of one director, who can be an individual or a corporation. All IBCs are required to maintain a Registered Agent and a Local Registered Office using licensed individuals or companies. There are no requirements for an IBC to file details related to shareholders or directors or for the filing of audits or accounting reports. No meetings of directors or members are required. There are no exchange controls for an IBC. Foreign companies may continue (re-domicile) as Belizean IBCs, and vice versa. The only restrictions on the activity of IBCs include: doing business with persons resident in Belize; owning an interest in real property situated in Belize, with the exception of lease property for office purposes. Foreign banking, insurance, or commercial registration businesses are also prohibited.

#### ***Registration***

A business registration system serves two important economic functions in contract enforcement:

- The registered address makes it possible to find a business to do the following:
  - Enforce contracts
  - Settle liability claims
  - Settle tax payments
  - Charge with penalty fees for improper conduct, such as inadequate waste management
  - Make tort claims
  - “Serve” a legal notice
- The registered officers indicate to other businesses, potential lenders, and creditors that these officers have the right to obligate the business.

When the registration system does not function efficiently, many firms opt not to register, since the disadvantages of registration outweigh the advantages. An "informal" business is one that does not comply with the legal requirements for registering a business. Some businesses find that the advantages of registration – such as limiting their liability, making it possible to borrow,

and being a full legal contractual party – outweigh the costs of red tape during registration and being liable for taxes.

Companies that are registered in Belize and wish to transfer or sell their business or any stock-in-trade or other assets held or used for the purpose of the business, are required to post a notice of the proposed transfer or sale in three consecutive issues of the *Gazette*, and once a week for three consecutive weeks in any local newspaper circulating in Belize.<sup>20</sup>

The general commercial registry operated as a private sector entity between 2003 and 2005. During this time, several useful changes were instituted including the conversion to an automated registration system. Critics pointed out that this went too far, as it was possible to register a business simply under a street name without disclosing the owners. The general commercial registry in Belize has been restored to the public sector after apparent misuse of property transfer tax proceeds. The registry is supposed to collect a 5 percent transfer tax on any change in share ownership, but in practice this tax is rarely collected.

Registering a business and carrying out related steps to start a business in Belize is still reasonably cumbersome. It requires 9 procedures, takes 44 days, and costs 51 percent of gross national income per capita, resulting in a low ranking of 147th place among the 183 economies surveyed by Doing Business for 2010,<sup>21</sup> well behind Guyana (97th) or Jamaica (19th). However, three of the nine steps involve particularly long delays (Box 5).

#### **Box 5. Registration and Other Procedures to Start a Business in Belize**

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

<sup>20</sup> Belize Business Names Act - Chapter 247.

<sup>21</sup> Doing Business, 2010 – Country profile for Belize.

## ***Bankruptcy***

In Belize, a company may be wound up voluntarily or by court order, if business is not commenced within a year from business incorporation, or is suspended for a whole year, or if a company cannot pay its debts. In the case of a business bankruptcy, all creditors, employees, and taxes must still be paid. No restructuring provisions exist in Belize.<sup>22</sup>

According to the BCCI, there is no system of a trustee in bankruptcy (although several sections of the Companies Act define and provide for such a function). Moreover, directors and shareholders can be anonymous, making access to real assets difficult.

According to Doing Business, it takes an average of one year to resolve a bankruptcy in Belize, much shorter than the three years in the region. Bankruptcy costs about 23 percent of the estate due to weaknesses in the bankruptcy law and procedural and administrative obstacles in the bankruptcy process. This is well above the average cost of about 16 percent in Latin America and the Caribbean and indicates that Belize can clearly improve in this area. However, the recovery rate of 63.4 cents on the dollar is far higher than the average of 27 cents in the region and close to the OECD average.<sup>23</sup> On closing a business, Belize is positioned well at 25th, close to Jamaica (23rd) and well ahead of the Dominican Republic (146th).

## ***Arbitration***

Arbitration is the low cost and relatively quick alternative to a lawsuit. Obviously, minor matters are settled between merchants on a good will basis. Often the next step is arbitration, which is incorporated in many contracts as the preferred means of settling disputes, since lawsuits often require hiring lawyers, lengthy submissions of documents, and lengthy proceedings. However, in the case of Belize, this too is not free from faults. The Belize system is small, very partisan, and dominated by interest groups; so finding an impartial arbitrator is nearly impossible. The government has made some progress in the right direction, for example allowing more time for review and consultation.

How the law treats the enforcement of arbitral awards can severely limit the economic usefulness of arbitration. Of particular importance is whether broad grounds exist for reviewing

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<sup>22</sup> Guide to Doing Business in Belize [http://www.lexmundi.com/images/lexmundi/PDF/guide\\_belize.pdf](http://www.lexmundi.com/images/lexmundi/PDF/guide_belize.pdf).

<sup>23</sup> Doing Business in Belize 2010.

an arbitral award in the courts. When the arbitral court itself can order the use of force, or if a judge must automatically give orders to enforce arbitral rulings, with limited rights to review them, then arbitration can be fast and efficient. This is the case in Belize. In contrast, when arbitration law requires court intervention, and thus the need to hire a lawyer to enforce the arbitral decisions, arbitration will have a much diminished effect.

Belize has an Arbitration Act – Ch 125, which was last revised in December 2000. The parties must appoint an arbitrator within 7 days of entering into proceedings. If the parties are unable to agree on an arbitrator or the appointed arbitrator fails to fulfill their role, the court may appoint an arbitrator. The powers of an arbitrator include administering oaths of the parties and witnesses, making the statement of award in the form of a special case for the opinion of a court, and correcting through awards mistakes that have occurred through clerical error. An award granted through arbitration may be enforced by the courts in the same manner as a legal judgment or order to the same effect. The court has the power to remit an award awarded through arbitration and, in the case of misconduct of the arbitrator, the court may set aside the award. Witnesses may be summoned by subpoena.<sup>24</sup> Altogether, the system of arbitration in Belize is relatively good in spite of its limitations.

## **Summary and Conclusions**

Belize's small, open economy is based on natural resources. Private sector activity is therefore concentrated in natural resource based activities or the production of services for the domestic market. Natural resource abundance and low population density confer certain advantages, particularly in terms of carrying capacity. However, the small size of the population as well as its dispersion prevent scale economies and result in high unit costs for the production of a variety of goods and services.

Investment rates have been respectable but too dependent on public investment. The latter is likely to remain weak for the foreseeable future due to fiscal constraints. Private sector investment has also been overly reliant on FDI – not because FDI has been excessive, but

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<sup>24</sup> Belize Arbitration Act – Chapter 125, Edition 2000, <http://www.belize-law.org/lawadmin/PDF%20files/cap125.pdf>.

because domestic private sector investment has been weak. The largest disadvantage that domestic investors face compared with foreign investors is the cost of capital.

Other factors of production – labor and land – appear to have been much less damaging to private sector investment than the cost of capital. Nevertheless, there is scope for improving the functioning of both the labor and land markets.

In general, Belize's economic policy framework has been characterized by its stability, continuity, and predictability. Nevertheless, the anti-export bias could be reduced and the incentive framework for private sector development improved by reducing trade taxes and phasing out fiscal incentive programs. High trade taxes and non-tariff barriers create an anti-export bias by raising the cost of inputs for production (including tourist consumption) and by increasing the returns to investment in protected import-substitution activities. This is contrary to what Belize, as a country highly dependent on export performance, needs. In addition, high trade taxes create strong incentives for input-dependent businesses to get around them through obtaining exemptions. Consequently, they create a strong demand for the government's incentive schemes, especially export processing zone status.

The various incentive schemes cost the government badly needed revenues while, in effect, raising the tax rates of everyone else. They create an uneven playing field between beneficiaries and non-beneficiaries, and strong incentives for lobbying and rent-seeking.

Selected areas of physical infrastructure impede private sector development. The high cost of maritime transport is a deterrent to private sector activity and trade. Paved highways connect most major urban settlements and border areas, but in rural areas many roads remain unpaved, or have gravel or marl surfaces. The lack of feeder roads is an issue for the agricultural sector. The most critical infrastructure deficiency for the long-term sustainability of the tourism industry relates to sanitation and solid waste management. Access to quality telecommunications and electricity is generally good, albeit at relatively high cost.

Belize's legal framework is in general conducive to private sector development and not regarded as a pressing problem, although modernization of the Companies Act would be welcome. Particularly noteworthy is the relatively modern legal framework and well-structured

system for arbitration. Notwithstanding this, enforcing contracts can be problematic and the application and enforcement of the laws and regulations that govern the private sector has been inconsistent.

Overall Belize was ranked by the World Bank/IFC's Doing Business at 80 of 183 countries surveyed for 2010 (Table 5). This is a drop from 75 of 181 in 2009. Belize's ranking has deteriorated the most over the last year in the category of "Starting a Business." Belize also scores poorly on: (i) enforcing contracts – a measure of the time, cost, and number of steps it takes to resolve a payments dispute; (ii) registering property; (iii) protecting investors -- a category that is defined in part by the level of transparency in a given transaction; and (iv) trading across borders.

**Table 5- Doing Business 2010**

<b>Doing Business in Belize</b>			
<b>Category/ Ranking</b>	<b>Doing Business 2010 rank</b>	<b>Doing Business 2009 rank</b>	<b>Change in rank</b>
<b>Doing Business</b>	<b>80</b>	<b>75</b>	<b>-5</b>
Starting a Business	147	138	-9
Dealing with Construction Permits	4	2	-2
Employing Workers	23	25	+2
Registering Property	128	128	0
Getting Credit	87	84	-3
Protecting Investors	119	114	-5
Paying Taxes	57	56	-1
Trading Across Borders	117	112	-5
Enforcing Contracts	168	169	+1
Closing a Business	25	25	0

*Note:* Doing Business 2009 rankings have been recalculated to reflect the addition of two new countries.

*Source:* Doing Business Report, 2010 - World Bank Group.

## **Recommendations**

### ***Lower the Cost of Domestic Finance and Improve Access to Credit***

The most important method of stimulating private sector development would be to remove the binding constraint on domestic investment and lower the cost of domestic finance. This requires boosting national saving and sustained fiscal consolidation, which lie outside the scope of this report. Although reducing interest rates in a sustainable way is a long-term project, there are still actions that policymakers could take to improve access to credit in the short and medium term. Key among these would be to establish a credit bureau, foster competition in the financial sector, promote an efficient and effective credit union industry, and reform the legal framework for secured loans, including those backed by movable property.

It would be worthwhile to have appropriate legislation so that the preconditions are met for credit bureaus to operate and facilitate credit. The purpose of credit bureau legislation is twofold:

- To facilitate local credit bureau creation in order to make more information about potential debtors available to creditors from a trusted third party.
- To regulate, but not over-regulate, credit bureaus so the public's legitimate rights are protected in the information gathering and storing process. This legislation allows creditors to use more relevant criteria in deciding who obtains credit, and lets creditors offer lower interest rates, make larger loans, and for longer periods.

### ***Reform the Tax System***

Over time, the government should seek to reform the tax system in order to reduce the dependence on trade taxes and curtail the fiscal incentives schemes. As in Jenkins and Kuo (2006), the government should seek to consolidate and reduce trade taxes, replacing the lost revenue through other indirect taxes and a reduction of exemptions. This would improve the competitiveness of existing and potential exports as well as help Belize to comply with CARICOM and World Trade Organization obligations. An important first step should be to convert non-tariff barriers, such as import licenses, into tariff barriers. This would still provide

protection for the protected industry but would convert the rents accruing to the private sector recipient of the import licenses into government revenue.

Many countries have considered adopting the revenue-neutral strategy of doing away with the fiscal incentives and then lowering one or more general taxes by a like amount. Such a system is far easier to administer, less susceptible to corruption, and would convey a clearer signal to businessmen regarding market forces and market conditions. Although exemptions from import duties and indirect taxes can be appropriate, particularly for exporters, new firms should be subject to direct taxes.

The recommended approach to the Fiscal Incentives Act is to repeal the Act in its entirety, and then incorporate those features that the government wants to preserve into a new investment law, the general purpose and contents of which are discussed below.

### ***Improve Selected Infrastructure***

It will be important to provide selected infrastructure that crowds in or facilitates private investment, while not compromising fiscal goals and the overriding need to bring down the cost of domestic finance. Improved solid waste management, sanitation, and municipal airports are needed for tourism growth. Improved provision of feeder roads is needed for agricultural sector growth, and increased attention to road maintenance could help all private sector activities.

### ***Strengthen Property Rights***

Improved land management that clarifies the legal and regulatory framework for land strengthens property rights, lowers transactions costs, ensures adequate protection of environmental and social objectives, and would facilitate private investment. An efficient, user-friendly land information system can improve land titling, strengthen property rights, and lower transaction costs. A land use management plan could help to structure competing uses and provide investors with a greater degree of certainty.

### ***Modernize Labor Legislation***

The government, private sector, and labor unions should investigate the possibility of reforming labor legislation and practices and bringing them into line with the needs of a modern economy, particularly one increasingly based on the provision of competitive international services.

### ***Reorient and Bolster Trade and Investment Promotion***

The government could consider reorienting and strengthening its trade and investment promotion activities. Its primary institution for investment promotion, BELTRAIDE, is short on resources and has a staff of 15. In Belize's fiscal context, it is unlikely that the resource situation will change drastically in the short term. However, investment promotion could become much more effective with the existing resources. Administering the current incentive programs absorb much of BELTRAIDE's staff time. Curtailing and phasing out these incentive schemes (as recommended above) would liberate staff for attracting investment.

In addition, although it is important for efficiency, equity, and national development reasons to continue to work in the promotion of domestic private investment, trade and investment promotion should arguably focus more on FDI than it has traditionally in the past, since this is likely to be the "low hanging fruit." Developing an investment law that offers a summary of the rights, responsibilities and opportunities available to national and international enterprises that invest in Belize may be an effective way of attracting greater investment. Investors need to know the basic framework of a country's investment regime before they commit their capital and resources to a business venture. Investment laws are often a compilation of existing laws and regulations rather than new legislation per se. Nonetheless, businessmen, foreign and national alike, appreciate being able to consult one rather than an array of diverse sources for their information. Most investment laws set a single national standard of treatment for investors, regardless of their countries of origin. Exceptions to this or other principles in the investment law are clearly described and enumerated. In contrast to older approaches, the advantage of this approach – often referred to as a negative list – is that whatever is not on the list becomes eligible for investment.

An investment law's content can vary greatly from one country to another. Typically there are chapters on Admission (if the investor is a non-national), Treatment, Expropriation, Dispute Settlement, and so on. A summary of the country's main business establishment and operating requirements may be included, sometimes with an automatic entry into force clause if the responsible authorities have not responded within a stipulated period of time.

In the case of Belize, an investment law is important for two main reasons. First, it can signal that the country intends to bind itself to a stable and transparent investment regime. Second, an investment law is usually regarded as an important public relations document. It is also one of the first documents a prospective investor consults to establish its “long list” of prospective investment sites from which a final choice is ultimately drawn.

More broadly, the close interaction of BELTRAIDE and BTB with private sector investors can be used to gain an understanding of their concerns and to target the provision of public goods to addressing those concerns.

### ***Strengthen the Quality of Regulation***

Improving the quality of regulation and predictability of the regulatory framework for public utilities is important for ensuring both that services are provided at a reasonable cost (even after taking into account higher per unit costs due to scale) and that the flow of new private investment in capacity is adequate. The past tendency toward reinforcing monopoly positions has not served consumers well and regulatory instability has made private sector actors more risk adverse and damaged the incentives for new investment.

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