

BELIZE

RIGHT CHOICES BRIGHT FUTURE

Systematic Country Diagnostic

Francisco Carneiro



WORLD BANK GROUP

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ABBREVIATIONS AND ACRONYMS

ACP	Africa Caribbean Pacific	CZMAI	Coastal Zone Management Authority and Institute
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism	DMSP-OLS	Operational Lines scan System
ANS	Adjusted Net Savings	DRM	Disaster Risk Management
API	American Petroleum Industry	ECLAC	Economic Commission for Latin America and the Caribbean
ASR	American Sugar Refining	ECCU	Eastern Caribbean Currency Union
BOOST	Building Opportunities for Our Social Transformation	EIRR	Economic Internal Rate of Return
BPO	Business Process Outsourcing	EMBI	Emerging Market Bond Index
BNE	Belize Natural Energy	EM-DAT	International Emergency Disasters Database
BCRIP	Belize Climate Resilience Infrastructure Project	EPI	Environmental Performance Index
BZ\$	Belize Dollar	EPPR	Emergency Prevention, Preparedness and Response
CAGR	Compound Annual Growth Rate	EU	European Union
CCT	Conditional Cash Transfer	FATF	Financial Action Task Force
CEDLAS/ SEDLAC	<i>Centro de Estudios Distributivos Laborales y Sociales / Socio-Economic Database for Latin America and the Caribbean</i>	FDI	Foreign Direct Investment
CIA	Central Intelligence Agency	GDP	Gross Domestic Product
CID	Center for International Development	GFDRR	Global Facility for Disaster Recovery and Reconstruction
		GIS	Geographic Information System

GNI	Gross National Income	NGO	Non-Governmental Organization
GNS	Gross National Saving	NTL	Night Time Lights
GTAP	Global Trade Analysis Project	NPLs	Non-performing Loans
GVC	Global Value Chain	NRCP	National climate Resilient Investment Plan
HBS	Household Budget Survey	OECD	Organization for Economic Co-operation and Development
HHI	Hirshman-Herfindhal Index	POVCALNET	Online Poverty Analysis Tool
HRV	The Hausmann-Rodrik-Velasco Framework	SAM	Social Accounting Matrix
HS	Harmonized System	SATIIM	Punta Gorda Belize Non-Profit Organisation
IADB	Inter-American Development Bank	SCD	Systematic Country Diagnostic
IBRD	International Bank for Reconstruction and Development	SIDS	Small Island Developing States
ICT	Information Communication Technology	SMEs	Small and Medium Enterprises
ICHR	Inter-American Commission on Human Rights	SNA	Standard National Accounts
IDB	International Development Bank	SEDLAS	Socio-Economic Database for Latin America and the Caribbean
IFC	International Finance Cooperation	System-GMM	System Generalized Method-of-Moment
IFS	International Financial Statistics	UN-	United Nations Commodity Trade
IMF	International Monetary Fund	COMTRADE	Statistics Database
ISIC	International Standard Industrial Classification	UNDP	United Nations Development Program
LAC	Latin American and the Caribbean	UN-ECLACC	United Nations Economic Commission for Latin America and the Caribbean
LACEX	Labor Content of Exports	UNFCCC	United Nations Framework Convention on Climate Change
LDC	Least Developed Countries	UNODC	United Nations Office on Drugs and Crime
LMI	Low and Middle income Countries	UNSD	United Nations Statistics Division
LFS	Labor Force Survey	UNICEF	United Nations Children's Fund
MCE	Multi-criteria Evaluation	UNWTO	United Nations World Tourism Organization
MDGs	Millennium Development Goals	USA	United States of America
MIC	Middle Income Countries	WDI	World Development Indicators
MICS	Multiple Indicator Cluster Survey	WEF	World Economic Forum
MIGA	Multilateral Investment Guarantee Agency	WHO	World Health Organization
NCRIP	National Climate Resilient Investment Plan	WITS	World Integrated Trade Solution
NBB	National Bank of Belize	WWF	World Wildlife Fund
NEMO	National Emergency Management Organization (Belize)		

CONTENTS

Acknowledgments	6	Boxes	
Overview	7	Box 1: Knowledge and Data Gaps on Poverty Limit a More Thorough Analysis of Poverty Dynamics	23
The Process	11	Box 2: Knowledge Gap—Limited Availability of Labor Force Data to Measure Public-private Wage Differentials	43
A Caveat	12	Box 3: Knowledge Gap—The Effect of Remittances on Reservation Wages	44
Country Context	13	Box 4: Potential Responses to Migration and Unemployment Phenomenon	46
Poverty and Shared Prosperity	19	Box 5: The World Bank’s Adjustment Net Savings Indicator	60
Growth Performance—Stop and Go	22	Box 6: Indigenous Peoples in Belize Have Used the Court System to Assert their Land Rights	68
Growth Determinants	32		
Emerging Focus Areas from the Comparative Methods	36	Tables	
Policy Areas that Could Boost Growth	37	Table 1: Select Socio-Economic Indicators for Belize and LAC	14
Inclusiveness	39	Table 2: Where is the Wealth of Belize?	17
Labor Market Outcomes Vary by Gender and Ethnicity	40	Table 3: Urban and Rural Poverty rates (% poor), 2002–2009	21
Unemployment: Frictional and Structural	40	Table 4: Poverty by Ethnicity, 2002–2009	22
Are Workers Cueing for Jobs in the Public Sector?	42	Table 5: Poverty by Gender, 2009 (% of Age Group)	22
Migrants Are Not to Blame	43	Table 6: Emerging Focus Areas to Enhance Growth	37
Labor Content of Exports and Sector Linkages	47	Table 7: Macroeconomic Trends and Projections	55
Export Growth Could Boost Share Prosperity	48	Table 8: Housing characteristics in 2009	66
Policy Areas to Boost Inclusion	51	Table 9: Benefit Levels (Bz\$) for Compliance with Education co-responsibility, differentiated by Grade and Sex	72
Sustainability Challenges	54		
Factors that May Affect the Sustainability of Growth	54	Figures	
Factors that May Affect Environmental Sustainability	60	Figure 1: Trade Openness/GDP per capita: Belize vs. Comparators	15
Factors that May Affect Social Sustainability	66	Figure 2: Belize Age and Sex structure, 2010	15
Synthesis and Priorities	73	Figure 3: Belize Population, Census, 1946 to 2010	15
Why Hasn’t Belize Developed Faster?	73	Figure 4: Belize Population distribution, Bayesian estimation, April 2014	16
Exogenous Factors	73	Figure 5: NTL Comparison of Belize (left panel) and Belgium (right panel)	16
Endogenous Factors	75		
Prioritization Approach	76		
Conclusion	80		
Bibliography	102		
Annexes	108		

Figure 6: Evolution of Moderate Poverty in LAC and Belize, 2000-2012	19	Figure 38: Direct and total labor value added in exports in 2011, forward linkages (\$ million)	49
Figure 7: Evolution of Moderate and Extreme Poverty (% headcount) and Gini coefficient in Belize 2002 and 2009	20	Figure 39: Total labor content in gross exports across sectors and countries	49
Figure 8: Shared Prosperity in Central America	20	Figure 40: Direct and indirect labor value added in each \$100 of exports (including backward linkages)	50
Figure 9: Moderate Poverty rates across Districts (% households, 2002 and 2009)	21	Figure 41: Skilled and unskilled labor content in gross exports	51
Figure 10: Extreme Poverty rates across Districts (% households, 2002 and 2009)	21	Figure 42: Skilled and unskilled total labor value added in exports in 2011 (\$ million)	51
Figure 11: Per capita GDP growth: Belize vs. LAC and Upper Middle Income Countries 1980-2012	24	Figure 43: Proportion of Employed and Unemployed with No Education Attainment, by District	52
Figure 12: Stop and go policies in Belize (US\$ lhs and % rhs)	24	Figure 44: Overall Government Debt under Different Financing Scenarios	56
Figure 13: Growth since 2000 compared to the previous period	26	Figure 45: Standard deviation of output growth: Belize vs. LAC Caribbean Small States 1970-2009	58
Figure 14: Structural and Stabilization Index (2005-2010)	26	Figure 46: Standard deviation of output growth: Belize vs. Low and Middle Income countries 1970-2009	58
Figure 15: Cyclicity: 1990-2005 vs 2005-2013	27	Figure 47: Calculating Adjusted Net Saving for Belize in 2013	59
Figure 16: What did Belize export?	28	Figure 48: Belize's Adjusted Net Saving, 1990-2013	59
Figure 17: Product Space Map for Belize: 1990-2012	28	Figure 49: Adjusted Net Saving: Belize, Latin America & Caribbean, Upper middle income	60
Figure 18: Tariff rate, applied, weighted mean, all products (%), 2013	29	Figure 50: Environmental Performance Index	60
Figure 19: Export Concentration of Market in 2003 and 2013	30	Figure 51: Estimated annual losses due to Extreme Climate events, % of GDP, 1993-2012 (left panel); Damage from Disasters in US\$ million in Belize (right panel)	62
Figure 20: Technological Classification of Belize's Export: 2003 and 2013	30	Figure 52: Criticality and Flood Susceptibility of Belizean Roads	63
Figure 21: General Government Expenditure/GDP vs. Economic Size, avg. 2000-2013	31	Figure 53: Prevalence of low-birth weight for last-born children	67
Figure 22: Savings/GDP, avg 2000-2013	31	Figure 54: Percentage of children under age five that are stunted	67
Figure 23: Net Capital Flows/GDP, avg. 2005-2012	31	Figure 55: Primary and secondary school net attendance rate by	69
Figure 24: Repatriated and Reinvested FDI income, avg. 2006-2011	32	Figure 56: Child labor by wealth index and mother's education (2011)	70
Figure 25: Financial Indicators in Belize	33	Figure 57: Child labor by ethnicity and mother's education (2011)	70
Figure 26: Financial Intermediation in Belize	33	Figure 58: Education levels of employed population by gender and ethnicity, %	70
Figure 27: Increase in Belize's GDP per capita based on counterfactual exercise	35	Figure 59: Prioritization Criteria	76
Figure 28: Major obstacles to business operations, 2010 (% firms)	35	Figure 60: Priorities for Sustainable Growth and Inclusion	78
Figure 29: Growth Accounting in Belize	36		
Figure 30: Backward and Forward Linkages	36	Annexes	
Figure 31: Belize: Unemployment and Net Migration	40	Annex 1: HRV Growth Diagnostics Framework and its application to Belize	85
Figure 32: Occupational distribution by gender and ethnicity, %	41	Annex 2: IFC's Industry Note on Belize's Oil Industry	86
Figure 33: Distribution of education by age and immigration status, %	41	Annex 3: IFC's Industry Note on Belize's Agriculture and Agribusiness	87
Figure 34: Unemployment and labor force participation rates by gender, %	42	Annex 4: IFC's Industry Note on Belize's Tourism Sector	90
Figure 35: Employed Population by District and Foreign-Born Status, 2012	43		
Figure 36: Proportion of Labor Force that was Unemployed and Proportion of Labor Force that was Foreign Born, by District	45		
Figure 37: Direct and total labor value added in exports in 2011 (\$ million)	48		



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OVERVIEW

Belize has a rich history that dates back thousands of years. The country was first inhabited by the Mayans with records of their presence dating from 1500 BC. The first recorded European settlement was established circa 1638 by the British who called the country the Colony of British Honduras. The official name of the territory was changed from British Honduras to Belize in June 1973, and full independence was granted on September 21, 1981. There were several obstacles in the path toward independence, as illustrated by Guatemala's long-standing claim to the entire territory. It was only in November 1980, after several frustrated negotiations with Guatemala that Belizean diplomacy managed to obtain international support that led to the United Nations passing of a resolution that demanded the independence of Belize, but it was only in 1992 that Guatemala formally recognized Belize's independence.

After independence, Belize successfully implemented a development strategy which emphasized economic diversification and private sector development at a time where the terms of trade were favorable to the country. In the mid-1980s, Belize experienced rapid economic growth in response to good economic management and a favorable external environment. During 1986-90, real GDP growth exceeded 10% per annum on average, with strong contribution from all

sectors of the economy. Sugar export receipts grew by 80%, production and exports of citrus nearly doubled and that of bananas tripled. Tourism arrivals more than doubled and receipts tripled. Led by public infrastructure investment and tourism-related construction, construction boomed and boosted trade and transport-related activities (see World Bank (1992)).

In the early 1990s, the economy started to slowdown as it suffered from the effects of a recession in the US economy. Agriculture and tourism were hit hard and the current account of the balance of payments recorded a deficit estimated at 15% of GDP in 1991, up from 5% of GDP in 1990 (World Bank (1992)). A marked feature of the growth performance of Belize since the 1990s has been its high volatility. The small size of the country, its high dependence on exports and imports, and its exposure to natural disasters have contributed in different degrees to this volatility. Between 1994 and 2013, for example, losses from hydro-meteorological disasters were estimated at US\$71 million, with an annual average loss of approximately 4% of GDP. It is estimated that if current climatic trends continue, extreme events will become more frequent resulting in greater fiscal impacts. Disasters could have a direct and large impact on economic conditions through reduced productivity, unsustainable budgetary deficits,

and increased national debt due to reconstruction costs. Furthermore, resources appropriated to respond to natural disasters reduce the funding available for other development projects. In addition, underdeveloped and dilapidated infrastructure, particularly in the transport sector, directly contributes to Belize's vulnerability to disasters and by extension the country's economic growth.

The limited data available suggests that poverty levels in Belize are high and substantively above the average for Latin America and the Caribbean. Since the early 2000s, GDP growth has been very close to the rate of growth of the population (estimated at 2.5%) which has led to the almost stagnation of GDP per capita for the last 12 years or so. Poverty data, which is available only for the years of 2002 and 2009 for the most recent period, show an increase in the share of the population below the poverty line from 34% to 42% between these two data points. Poverty is a rural phenomenon in Belize as rural poverty rates reached 55% in 2009 as compared to 28% in urban areas. This performance is in stark contrast with that of the LAC region as a whole where poverty has declined from 42% in 2002 to 30% in 2009 lifting more than 80 million from poverty.

Based on the data available, the incidence of poverty shows large spatial differences. The bottom 40% of the population is mostly situated in rural areas with the highest rates of extreme poverty found in the districts of Corozal and Toledo. Poverty seems to be higher in these areas because they tend to concentrate households headed by individuals with low levels of schooling, exhibiting lower female participation in the labor market and belonging to ethnic minorities. Income inequality is also moderately high with a Gini coefficient of 0.42 in 2009, but this is based on an old survey and the recent stagnation of real per capita in the country suggest that this might have increased in more recent years.

As a small, open economy, that is also extremely vulnerable to climate change and natural disasters, Belize's ability to promote faster poverty reduction and greater shared prosperity will depend on how well the country deals with its main sources of vulnerability. Our findings show that these vulnerabilities have exogenous and endogenous reasons. Exogenous factors can be a blessing and sometimes a curse. The

recent debate on the country's potential to start exploration of offshore oil is a classic example given that Belize is also the home of the largest live coral barrier reef in the world. As tourism and agriculture are the country's major sources of income and employment, the dangers associated with offshore oil exploration pose serious risks to Belize's varied ecosystems and to the livelihoods of a significant share of the population.

Belize's small size is an important exogenous factor that makes the country vulnerable to terms of trade shocks and creates output volatility which can affect long-term growth negatively. As the country needs to import most of what it consumes and relies on a few sources of foreign exchange, it remains pretty much vulnerable to the fluctuations of commodity prices and the performance of its few trade partners. The recessions faced by the US in the early 1990s and recently during the global financial crisis and how hard Belize's economy hurt in the aftermath of these events illustrate this vulnerability well. The small size also means that the country has few opportunities to grow (the availability of arable land in Belize at 700 Km² in 2009 is extremely low) as it faces a situation of lack of economies of scale. Economic size is also an important predictor for low savings, and the situation in Belize confirms this stylized fact. Gross domestic savings have averaged about 10% of GDP in the recent past which is at least 50% lower than the LAC average of 15%. With limited savings, investments remain low as well, and growth prospects conditioned on the ability to innovate, increase productivity, and diversify products and partners. Another important exogenous factor that can impact the country's ability to grow, contribute to increase its debt levels, and impact savings is its high degree of exposure to natural hazards.

Two important endogenous factors that can affect long-term growth in Belize are associated with the quality of its capital and labor. This SCD has shown that weaknesses in infrastructure can exacerbate the impacts of natural disasters on the economy. In addition, the poor quality of education has a direct impact on the quality of the labor force. The lack of secondary road networks and the vulnerability of the whole energy sector to strong winds mean that a single storm can leave the country paralyzed and in the dark for long periods of time, impeding the movement of cargo and people thus hurting growth and affecting negatively the livelihoods of Belizean citizens.

Growing crime and violence and concerns with the lack of competition and stability in the financial sector have also been identified as binding constraints to growth in Belize. In addition to weaknesses in infrastructure and in the skills of the labor force, several studies have pinpointed crime and violence and problems in the financial sector as important deterrents to growth. The analysis in this report confirms the centrality of these two factors. The predicament in the financial sector is largely driven by the small economic size of the country and the lack of competition in the banking sector—a common feature in small state economies that limits the availability of credit to small and medium enterprises. Stability issues in the sector complicate matters as these impose non-negligible risks to the health of the financial sector. On the other hand, the rise in the inflow of migrants from neighboring Central American countries with a history of crime and violence has been raised as a potential cause for high crime rates in Belize, but there is not enough evidence to substantiate that claim at this point. Policy interventions that could help halt the rise in criminality rates include ramping up the quality of education, keeping children at school, promoting education equivalency programs and job training, besides more direct approaches such as investing in safe neighborhood programs.

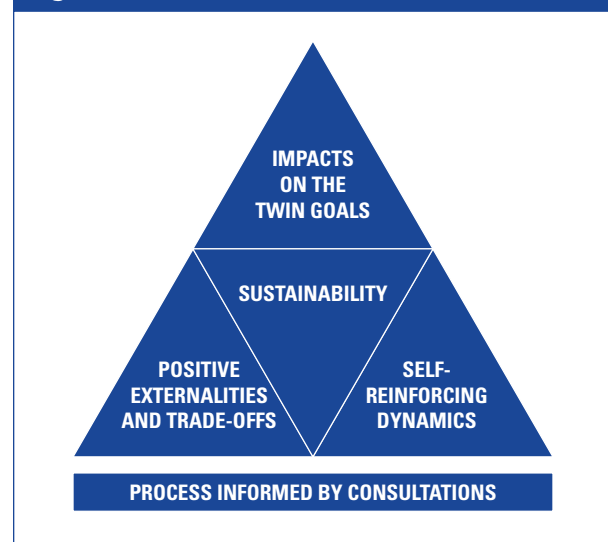
Putting Belize back on a path of faster growth that could unlock faster poverty reduction and greater inclusion will require attention to a few areas in need of big push. The approach adopted in this SCD to identify priorities to accelerate growth and boosting shared prosperity relied on four key considerations (see Figure O1). First, the extent to which improvements in a given area would have substantial impacts on the twin goals of reducing extreme poverty and boosting shared prosperity. Second, for a small state that faces important problems with economies of scale, it was important to take into account positive externalities and trade-offs associated with any proposed intervention. In this context, this SCD has used the existence of complementarity effects and trade-offs as an explicit criterion to identify priorities. Third, given the observed stop-go pattern of growth in Belize and the country's heightened volatility to exogenous shocks and exposure to natural hazards, sustainability has been an important criterion helping to define priority areas of focus. Finally, an additional factor that helped identify priorities included the existence of self-reinforcing dynamics, which helped to introduce more granularity in the choice

of priority areas and allowed the consideration of important nuances in the prioritization exercise. In practice, the approach followed three key considerations, as follows.

The main areas in need of a big push that could have the highest potential impact on the twin goals are illustrated in Figure O2 and include:

- i. Improving education and skills;
- ii. Addressing crime and violence; and,
- iii. Increasing resilience to climate change and natural disasters.

Figure O1: Prioritization Criteria



Improving education and skills would positively impact growth, inclusion, and sustainability and these positive impacts would be reinforced by the adoption of an appropriate migration policy. Higher learning outcomes, greater equity and access to education would better equip the labor force for the acquisition of skills demanded by the domestic labor markets and position them well to compete for better-paying jobs if they decide to emigrate. A more educated and skilled workforce would attract a more rewarding return to schooling and could help reduce the high reservation wage levels exhibited by Belizeans thus contributing to reduce the natural rate of unemployment and lowering the costs associated with the provision of social protection. In addition, an appropriate migration policy would ensure that the incoming migrants could fill the positions that many Belizeans, particularly young Belizeans, are unwilling to fill. A better educated

labor force would certainly have a significant impact on poverty reduction, especially if education outcomes are significantly improved at the secondary level, besides helping to develop greater backward and forward linkages in the economy. The entry points to improve education and skills have been amply studied and discussed. They include greater attention to pre-school education, ensuring primary and secondary education access for all children, improving teacher training, establishing quality assurance and accountability mechanisms to increase learning and improve efficiency, and expanding and tailoring existing vocational and training institutions to respond to the needs of the market, including training of migrants.

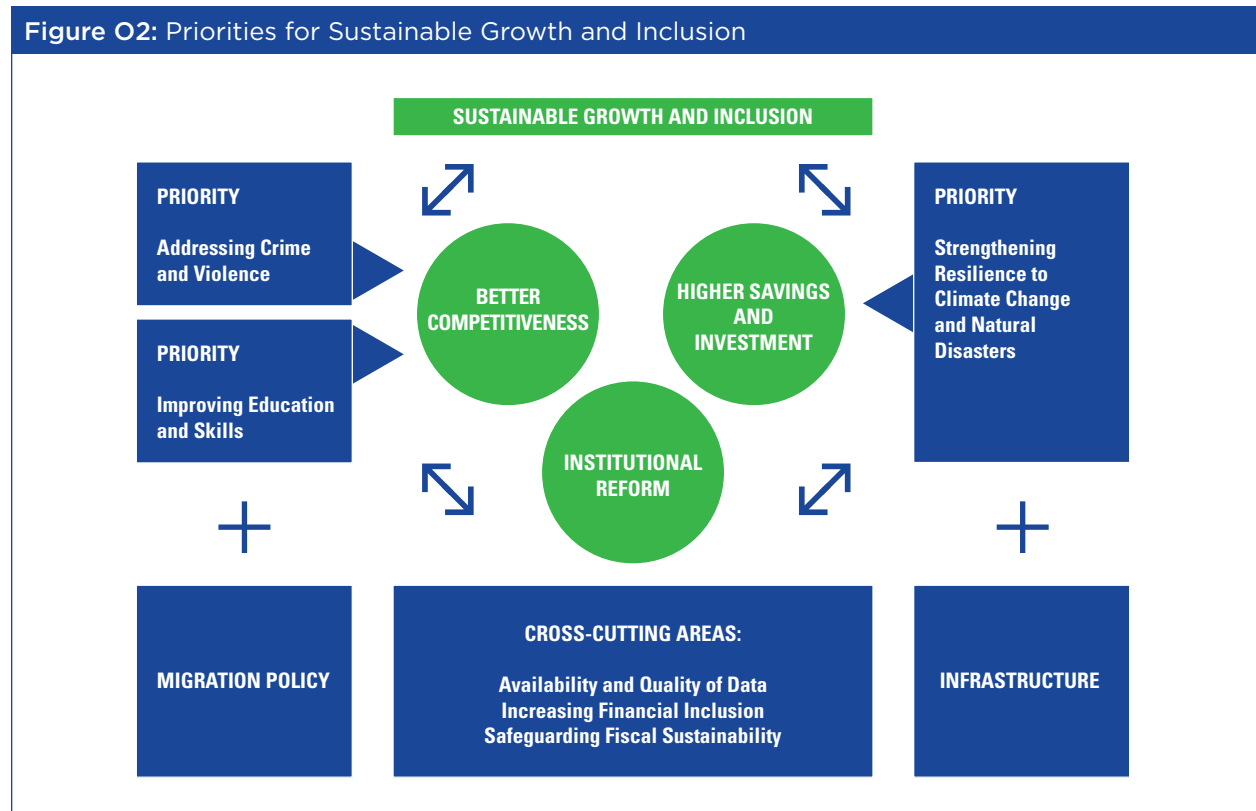
Addressing crime and violence would complement progress in other priority areas with positive spillovers on competitiveness and ultimately growth.

The links with education and skills is obvious as a self-reinforcing effect could lead to better inclusion. In the short to medium-term, there are entry points around creating income and learning opportunities to steer the youth away from joining criminal organizations, creating a safer environment for learning, and ultimately

contributing to raise the skills profile of the labor force with expected positive spillovers on competitiveness and growth. Finally, it is essential to preserve the youth and avoid their exposure to crime, which in Belize is extremely high (at 99% percent) and is believed to be an important risk factor for the perpetration of violence.

Strengthening resilience to natural disasters and climate change along with improvements in the existing infrastructure in Belize are critical to support the twin goals to end extreme poverty, and promote shared prosperity in poorer segments of society.

Belize is one of the countries in the world which is most affected by weather-related events and other natural hazards. Combined, Belize incurs annual losses of close to 4% of GDP due to natural disasters. These losses add to fiscal pressures and constrain wealth accumulation. Climate change is expected to increase the frequency and intensity of weather-related events. Poor communities are disproportionately vulnerable to economic shocks and reduced mobility—particularly the minority groups in the southern and northern parts of the country. The vulnerability in the road networks, due to the lack of redundancy, results in agricultural



communities unable to access the larger markets in Belize City and Belmopan, students unable to attend schools, and goods not able to make it into rural communities. These problems are compounded by the fragility of the energy network that can easily be damaged by severe storms which have hit Belize with frequency in the past and should remain a threat in the future. Investing in disaster risk management will help to protect the limited assets of poor communities from natural disasters and climate change related events and to improve the access and the economic livelihoods of poor and vulnerable communities.

Consideration was also given to structural issues that cut across and would complement progress in different areas, and these included:

- a. Improving the availability and quality of data
- b. Increasing financial inclusion; and
- c. Safeguarding fiscal sustainability.

Belize needs a big push to improve the quality and availability of data. In order to become more efficient and obtain better results governments need good data. This is true from different angles and perspectives. Data are crucial to allow countries to track where they are in terms of social and human development and can help identify which policies work and which do not in promoting growth and shared prosperity. Budget decisions and policy choices have long-term effects on a country's fiscal future and on the outcomes that the budget delivers for the country's citizens. These decisions and policy choices can lead to much better results if they are based on rigorous and reliable evidence that can enable the government to select, fund, and operate public programs more strategically. In the case of Belize, there are serious limitations in the quality and availability of social and economic information that prevents the government and prospective investors from making more informed decisions. These limitations can affect the effectiveness of government policy and inhibit new businesses.

The availability of financial services remains narrow; particularly to serve small and medium enterprises.

And stability issues in the banking system do not augur well for the health of the financial sector. The commercial banking sector mainly focuses on large and medium scale clients. Thus the options for small and medium enterprises to obtain financing from formal financial institutions are limited to credit unions. Agriculture contributes nearly 12% of GDP but the market has so

far been unable to provide any kind of agriculture insurance in Belize. Notably missing financing instruments in the local financial markets are: micro-financing, micro-insurance, leasing and factoring. Once financial stability is restored, the development of such instruments could support greater access to finance by small and medium enterprises and contribute to decreasing the identified credit gap of US\$1,141 million for this important market segment. Greater financial inclusion can also help raise savings and investments which would have a positive impact on growth and shared prosperity.

Sustainable progress towards the achievement of the twin goals of reducing poverty and boosting shared prosperity in Belize will also require prioritizing fiscal sustainability.

As a small and largely open economy, Belize is exposed to large terms-of-trade shocks that can introduce output fluctuation and affect growth negatively. A sure way to mitigate against external shocks is by building fiscal buffers that could help the authorities to keep a counter-cyclical fiscal stance. While the short-to-medium term outlook for Belize remains broadly favorable, projects financed with PetroCaribe resources may become future fiscal liabilities. Continued efforts to promote fiscal consolidation would help create fiscal space to finance priority expenditures (on education and resilience, for example) and boost the income of the bottom 40% of the population. This is all the more important in view of the potentially negative impact on Belize's public debt levels associated with the imminent need to make compensation payments for the nationalized utilities. In that context, Belize would do well in safeguarding fiscal sustainability by continuing to seek ways to strengthen its fiscal position and reduce its debt level as a share of GDP.

The Process

Consultations with stakeholders helped to inform this SCD. The team has also conducted internal consultations with the SCD core team, including expertise from the IFC and MIGA, and with Global Practice colleagues. These consultations took the form of brainstorming meetings to collect feedback and inputs on the definition and diagnostic of the most binding constraints to growth and proposed areas of focus to boost shared prosperity and reduce extreme

poverty in Belize. This SCD has drawn on existing material, new analyses commissioned for the purposes of this systematic effort to understand the main sources of growth and prosperity in the country, and crucially in consultations in country with a varied group of interlocutors. Throughout the consultations, there was a broad consensus on the diagnosis of the challenges faced by Belize and the priorities identified in this report. Above all, there was overwhelming recognition of the need to improve the quality of education and skills in the country given its spillover effects on competitiveness, growth, and crime and violence.

This SCD is structured in six chapters that range from a brief description of the main features of Belize to the discussion of priorities for growth and shared prosperity. Chapter 1 presents the country context, highlighting Belize's main features as a small upper middle income country that faces high volatility associated with its size and vulnerability to exogenous shocks. Chapter 2 discusses trends in poverty and shared prosperity. Chapters 2 through 5 discuss the main underlying factors that have been found to influence Belize's growth performance as well as its economic, social and environmental sustainability. Each of these chapters discuss in greater detail the nature of the challenges, dig deeper into exploring the likely causes of these challenges, and identify policy areas that could be critical for boosting growth and inclusion and ensuring sustainability. These chapters also identify knowledge and data gaps on areas where new information could help strengthen a diagnosis and

inform specific actions in the priority areas. The sixth and final chapter has three important and distinctive features. First, it provides a synthesis of the analysis and findings of the previous chapters. Second, it provides a discussion of the approach used to identify the priorities for action in Belize. And, third, it concludes with a discussion of the priorities to boost shared prosperity and ensure economic, social and environmental sustainability in Belize.

A Caveat

A caveat to be aware of at the outset is that there are many information gaps in Belize. There have been only two poverty assessments undertaken since the last century (2002 and 2009) and information on social indicators, poverty, and welfare is scant. This has limited substantively the diagnosis of poverty and shared prosperity trends. In that context, it was not possible, for example, to understand better the dynamics of poverty nor its responsiveness to economic growth, nor gauge the contribution of different sources of income to poverty reduction. Similar data limitations prevented a more detailed assessment of the determinants of income inequality, the role of remittances on labor market outcomes, and the public-private wage differentials. Improving the quality of data and statistics on poverty and labor could go a long way in allowing a better diagnosis of social conditions in the country while also informing critical policy decisions.



COUNTRY CONTEXT

While there is insufficient data to adequately assess the dynamics of poverty in Belize, overall poverty may have most likely worsened more recently, especially because income per capita has virtually stagnated since the early 2000s. Summary economic and social indicators are presented in Table 1. GDP per capita remained virtually flat after 2003 because the economy grew close to –and at times even below– the annual rate of growth of population, estimated at 2.5%. During the 2002-2009 period, the overall poverty rate increased from 34% to 42%, and extreme poverty increased from 11% to 16%¹. Rising poverty has affected all districts; for example, poverty rates have more than doubled in the Corozal District, from 26% to 56%, and extreme poverty tripled from 6% to 21%. Corozal was also repeatedly impacted by hurricane and flooding, underscoring the population’s vulnerability to disasters. Income inequality also remains moderately high with a Gini coefficient of 0.42. The highest economic inequality is concentrated among indigenous Mayan

communities². There is also clear evidence of a rural-urban divide based on lower education, low female labor participation and belonging to ethnic minorities.

The growth pattern in Belize has been erratic and seems to be linked to political cycles. Growth appears to be closely linked to fiscal spending and the country’s external position. Over the last twenty years or so, the evidence shows that the current account consistently moves into deficit during periods of accelerated growth and then recovers during recessionary periods. According to the IDB, Belize suffers from lack of fiscal discipline with the country’s fiscal problems being more pronounced on the expenditure side. The IDB also notes that Belize’s growth accelerations have been fueled and extended by unsustainable public investment (Martin and Manzano (2010) p. 14). In addition to poor fiscal discipline, Hausmann and Klinger (2007) argue that low savings constrain access to finance in Belize. The country also follows a conventional peg to the US dollar which means that, as in other ECCU countries, fiscal policy constitutes almost the only available tool for macroeconomic management. Also similar to the ECCU

1 Extreme (or Indigent) poverty is defined as \$ 2.74 per day (\$1,000 per year) and Moderate poverty by \$ 4.65 per day (\$1,700 per year). Source: Government of Belize and Caribbean Development Bank 2009 Country Poverty Assessment Final Report, August 2010.

2 Extreme poverty in Toledo where Mayan communities are concentrated is 38% while the national average is 10% (2009).

Table 1: Select Socio-Economic Indicators for Belize and LAC						
	BELIZE			LAC		
	2000	2009	2013 or latest	2000	2009	2013 or latest
Population Density	10.5	12.2	14.6	26.2	28.2	30.7
Population Growth	2.9	2.6	2.4	1.5	1.2	1.1
Life Expectancy	70.5	72.3	73.7	71.6	73.2	74.6
Urbanization Rate	47.7	46.0	44.3	75.3	77.2	79.3
Primary Completion Rate	100.8	104.8	116.1	95.9	97.1	94.8
Secondary Completion Rate	44.5	56.6	64.3	59.9	72.6	78.5
	2000–2005	2006–2010	2011–2013	2000–2005	2006–2010	2011–2013
GNI per capita	4276	3841	4030	4591	5279	5693
Real GDP Growth	6.7	2.8	2.0	2.8	3.6	3.2
Public Debt (% of GDP)	92.8	84.6	76.8	53.5	47.7	48.7
	2002	2009		2003	2007	2012
Poverty Rate*	34	42		41	32	25
Rural Poverty**	44	55		64	56	47
Urban Poverty**	24	28		34	27	21
Inequality Index (Gini)	40	42		56	54	52

Notes: *Belize: moderate poor (2009 Country Poverty Assessment). LAC: Poor (\$US 4 per day). **LAC average: Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, El Salvador, Honduras, Mexico, Paraguay and Peru.

Sources: IMF, World Bank (WDI, Equity Lab), Government of Belize and Caribbean Development Bank.

experience, the country's pro-cyclical fiscal behavior in periods of expansion (see Carneiro and Garrido (2015)) and overall lack of tax buoyancy, have led to the accumulation of debt which is now close to 75% of GDP.

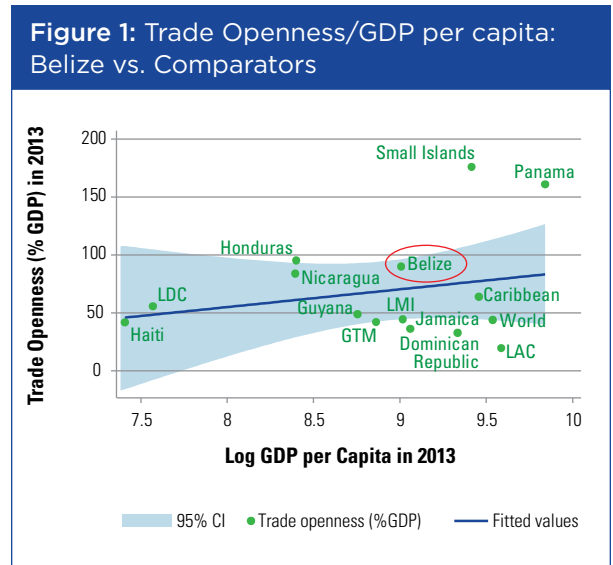
An open Upper Middle Income Country (MIC) with a GNI per capita of US\$4,510 in 2013, Belize is an open economy that has integrated mostly with the Caribbean rather than with other Central or South American countries. Unresolved territorial disputes with Guatemala since Belize's independence in 1981 have slowed progress in regional integration solutions.³

Yet, Belize is a more open economy today than many of its comparators. The average trade openness in Belize from 2003 to 2013 is greater than the averages of the Caribbean countries, Latin America and the Caribbean (LAC), the Least Developed countries (LDC), Low and Middle Income countries (LMI), and the world, but remains significantly less than the average of the Small Island Developing States (SIDS) (see Figure 2). However, the high openness to trade in Belize has been largely driven by imports resulting in relatively lower terms of trade in comparison with its peers.

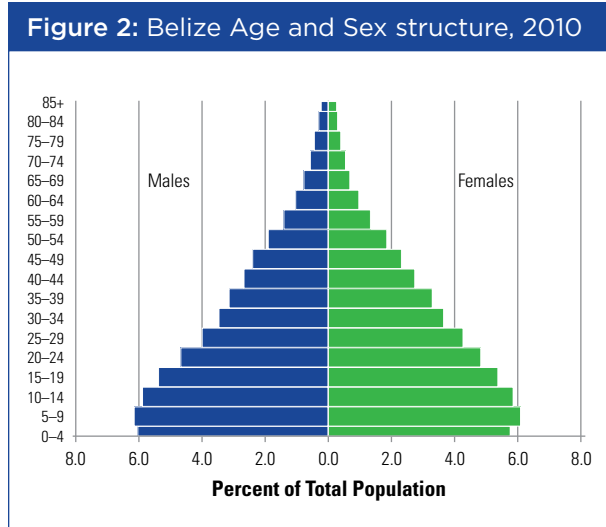
³ Guatemala maintains a long-standing territorial claim over a part of the territory of Belize. The current borders were defined in a treaty concluded between Britain and Guatemala in 1859. There have been several attempts to resolve these territorial disputes. The most recent initiatives in this respect have been undertaken under the auspices of the Organization of American States (OAS) since 2000. In this context, the two parties agreed to carry out a number of confidence-building measures and launched various rounds of negotiations until the OAS Secretary-General recommended in November 2007 that the dispute be referred to the International Court of Justice (ICJ). Following this advice, on December 8, 2008 Belize and Guatemala signed a Special Agreement to submit to the

ICJ "any and all legal claims of Guatemala against Belize to land and insular territories and to any maritime areas pertaining to these territories". On April 27, 2012, the Ministers of Foreign Affairs of Belize and Guatemala agreed that referenda on referring the territorial dispute to the ICJ be held simultaneously in both countries on October 6, 2013. This did not happen as scheduled. Most recently, the two countries have agreed to a Road Map and Plan of Action, which has as its main objective the strengthening of the bilateral relationship between the two countries so that a new date most convenient to both to hold the referenda can be fixed.

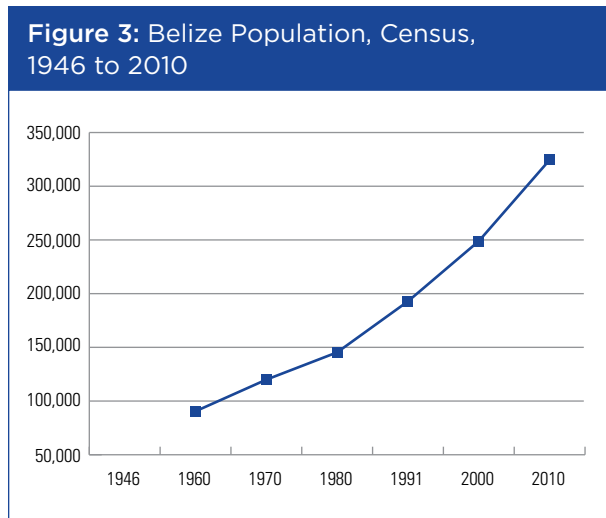
Despite having a young and quickly growing population—estimated at 340,000 inhabitants in 2013—Belize remains sparsely populated. The number of Belizeans has been doubling every 30 years (Figure 3)⁴ and at current rates of growth would double again by 2036 (Figure 4).⁵ Strong net immigration from El Salvador, Guatemala and Honduras has contributed to population growth. Despite the fast rate of growth,⁶ however, the country remains very thinly populated. Combining the census data with the most recent available information, the best depiction of the distribution of the population of Belize (Figure 4) confirms that the country is indeed scarcely populated with large swathes of unpopulated land. Belgium has more than 33 times the population of Belize with approximately the same land mass (see Figure 5 which maps both countries using Night Time Lights (NTL)).



Sources: World Bank staff estimates



Sources: Statistical Institute of Belize, 2013.



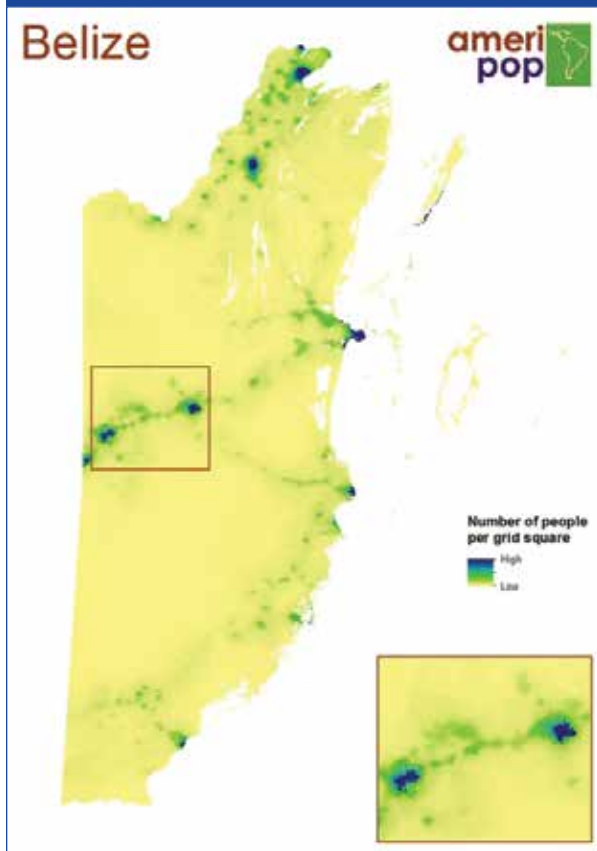
Sources: Statistical Institute of Belize, 2013.

4 The foreign-born population included in the 2010 census was 45,723 or 14% of the population.

5 The doubling of the population refers to the census taken in 2010 of 324,528 persons. If the current rate of growth of 2.65% held constant, the population would double every 26 years.

6 During the late classic period of Mayan civilization (600-800 AD), the total Mayan population might have been as high as 20 million. This would have implied a significantly greater population for Belize than current estimates. See for example, Turner (1976) and Tedlock (1982).

Figure 4: Belize Population distribution, Bayesian estimation, April 2014



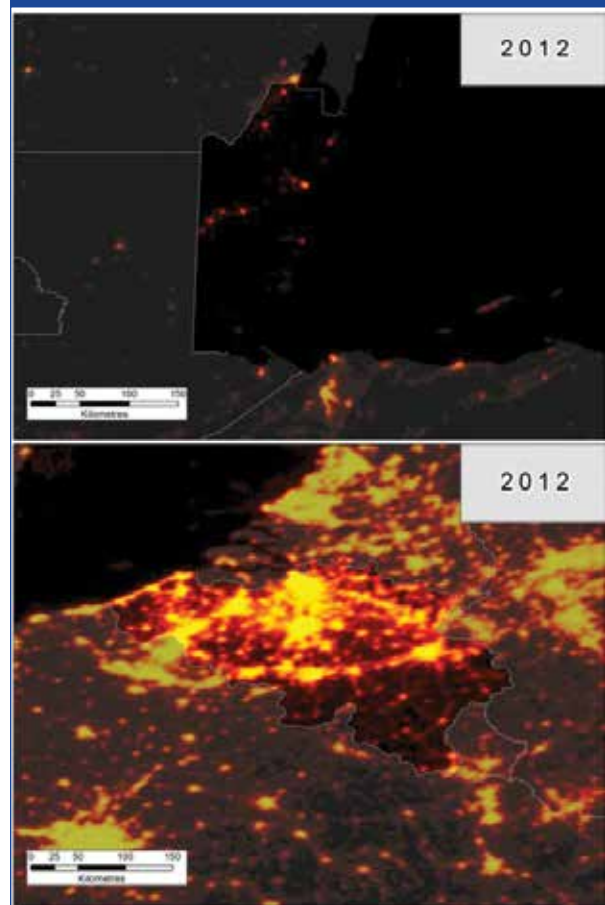
Sources: WorldPop project. See: www.worldpop.org.uk.

With a nominal GDP of US\$1.6 billion in 2014 (ranked 172th out of 194 in The World Bank Development Indicators), Belize has a small economy heavily concentrated on tourism and agriculture. Tourism is the most important industry in Belize, representing 21% of GDP and 28% of employment. In 2013, Belize received 294,000 tourists, a 6% increase from 2009. This recent growth has been driven by North America, with 70% of tourists arriving from the US and Canada. Although the majority of tourists arrive by water, the amount of tourists arriving by land has increased by 18% over the same period. Agriculture accounts for 13% of Belize's GDP, 10.2% of its employment⁷ and more than 2/3 of its exports.⁸ Some 38% of Belize land areas is suitable for

⁷ CIA Factbook, 2012, Statistical Institute of Belize

⁸ The Atlas of Economic Complexity, CID at Harvard University, <http://www.atlas.cid.harvard.edu>

Figure 5: NTL Comparison of Belize (top panel) and Belgium (bottom panel)



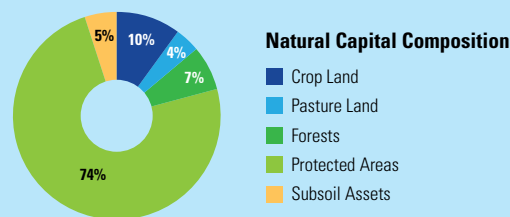
Sources: World Bank Staff based on analysis of DMSP-OLS night-time lights data.

agriculture but only 7% of that is currently utilized for farming. Traditionally Belize has grown commercial crops such as sugar and citrus fruits for export to Europe and the USA whereas food crops have been traditionally cultivated at a subsistence/small scale for local consumption. Tourism is the number one foreign exchange earner in this small economy, followed by exports of crude oil, marine products, sugar, citrus, and bananas.

Belize's total wealth is comparable to countries of similar size and population and is estimated at \$20 billion with a per capita wealth of \$63,188. A wealth accounting exercise carried out for this SCD reveals that Belize's total wealth per capita is comparable to that found in its income group, where the average for upper middle income countries is \$72,700; but it is

Table 2: Where is the Wealth of Belize?

2010 US\$	TOTAL (BN)	PER CAPITA
Total Wealth	20.0	63,188
Produced Capital	2.4	7,648
Natural Capital	8.0	25,297
Intangible Capital	11.6	36,638
Net Foreign Assets	-2.0	-6,296



Sources: Author's calculations based on World Bank data, preliminary estimates.

substantially lower than its regional average, which is \$133,800 for Latin America and the Caribbean. Belize's intangible capital, which captures human and social capital, comprises over half of the nation's total wealth. Natural capital is the second most important component at 40% of total wealth, dominated by the value of its protected areas. Produced capital makes up 12% of total wealth, and net foreign assets are quite largely negative (i.e., financial liabilities greater than financial assets) at negative \$2 billion in total (see Table 2).⁹

Belize derives significant benefits from the ecosystem services generated by the coral reefs and mangroves. It has been estimated that the value of ecosystem services (fishing, tourism, shoreline protection) generated by the coral reefs and mangroves contributes between 15% and 22% of GDP in Belize (in the range of US\$395–559 million per year) (Cooper, Burke, and Bood (2009)). The Belize Barrier Reef not only supports vibrant tourism, fishing industries, and livelihoods for communities, but also shelters Belize's extensive coast from erosion and coastal damage caused by wave action. According to the World Resources Institute's assessment in 2008, approximately two-thirds of the mainland coast is protected by coral reefs. The degree of protection varies with reef type, depth and distance from the shore, as well as with the elevation and slope of the shore, the geological origin of the area, and the wave energy along the coast. Emergent reefs, such as the Barrier Reef, can mitigate over three-quarters of wave energy. Reefs close to shore provide the most protection since waves have less chance to regenerate.

As Belize is a country with extensive, low-lying, coastal areas it faces significant vulnerability to climate related disasters such as tropical cyclones and flooding. Furthermore, the economy is small and concentrated with most centers of population located in the most vulnerable areas. The UNFCCC recognizes Belize as one of the countries most vulnerable to adverse impacts of climate change due to it: (i) possessing a long, low-lying coastline, (ii) consisting of over 1,060 small islands, (iii) having the second longest barrier reef in the world (and the largest reef in the Western Hemisphere and the Americas), and (iv) maintaining 17,276 km² of forest cover, each of which supports fragile ecosystems. Thus, the vulnerability of the country to the foreseeable adverse physical, environmental, and economic impacts of climate change indicates that priority attention must be directed towards the implementation of viable adaptation measures targeting the most vulnerable sectors and ecosystems of Belize.

The small size of the economy and its domestic markets together with the topographic characteristics of the country expose its vulnerability to economic shocks and natural hazards. The smallness and concentration of the economy on tourism and agriculture increase the importance of effective trade integration. Low population density creates difficulties for agglomeration and scale economies making the provision of infrastructure inherently expensive in per capita terms. The country is also highly exposed to the elements being vulnerable to hurricanes, tropical storms and flooding due to its extensive coastline topography. In addition, climate change can bring significant risks given the low elevation of much of Belize's land area, the concentration of population in coastal areas, and the reliance of the economy on natural resources.

⁹ A summary of the World Bank's wealth accounting methodology can be found in Box 6 of this report.

Over the past ten to fifteen years, migration to Belize has increased sharply, fueled heavily by political instability and unemployment in neighboring Central American countries and Mexico. While migrants have been absorbed fairly quickly into the Belizean labor market, native unemployment has remained high, creating questions about the role of migration in poverty reduction and shared prosperity in Belize. While attributing native unemployment in Belize to high migrant employment may be tempting, the data available does not suggest a strong causal relationship between the two phenomena. At the district level, native unemployment does not appear correlated to migrant labor market participation. In places where migrants appear to access employment opportunities by accepting wages that natives would not, the result may be the survival of agricultural and service industries with low and variable profit margins. It is possible that firms in these industries would close if they could not rely on migrants and instead had to pay higher wages to natives; field research would be necessary to substantiate this claim. Thus, migration's effect on native employment is unclear.

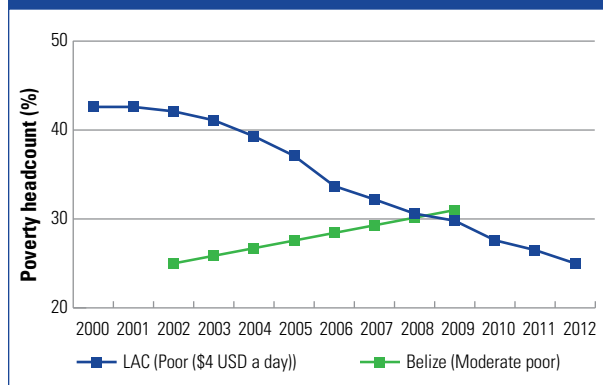
POVERTY AND SHARED PROSPERITY

Poverty and shared prosperity are thought to have worsened in the wake of adverse shocks that have affected Belize and other countries in the region.

Since household surveys used to calculate poverty and income estimates are only available infrequently in Belize (2002 and 2009), most of the poverty and shared prosperity data are out of date. While robust evidence is not available, there is a convergence of factors and related trends that indicate that poverty and shared prosperity outcomes are likely to have worsened since the last estimates. This is due for example to the effects of the global financial crisis and the several natural disasters faced by the country, and the fuel price rises observed between 2008 and 2010. Whereas the rest of Latin America and the Caribbean have experienced major advances in pro-poor growth in the 21st century, the available data on Belize shows poverty at a higher level in comparable periods (Figure 6). This is evident amongst the extreme poor (indigent) and the moderate poor which together represent roughly the entirety of the bottom 40% of the population and from worsening Gini coefficients in the country (Figure 7). This performance is in stark contrast with that of the LAC region as a whole. Over the 2002-09 period, for which data for Belize is available, poverty in the LAC region dropped from 42% to 30%. Roughly speaking, nearly 80 million were lifted from poverty in LAC between 2000

and 2012. In 2010, for the first time since comparable records exist for LAC, the proportion of people in the middle class exceeded the proportion of poor people. Drawing on the existing data, such inflection point remains far away for Belize.

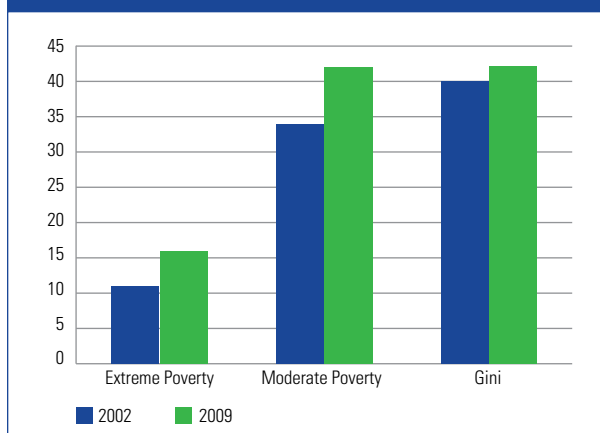
Figure 6: Evolution of Moderate Poverty in LAC and Belize, 2000–2012



Note: Poverty numbers for LAC based on harmonized data for 17 countries in the region for which micro data are available and using a poverty line of (PPP US\$4). Poverty rates for Belize (2000 and 2009) based on official numbers.

Source: LAC Equity Lab tabulations of SEDLAC (CEDLAS and the World Bank) and WDI. Government of Belize and Caribbean Development Bank, 2009 Country Poverty Assessment Final Report, August 2010.

Figure 7: Evolution of Moderate and Extreme Poverty (% headcount) and Gini coefficient in Belize 2002 and 2009



Note: The sum of extreme and moderate poverty in 2009 was 42% of the population. Extreme (or Indigent) poverty is defined as \$ 2.74 per day and Moderate poverty by \$ 4.65 per day.

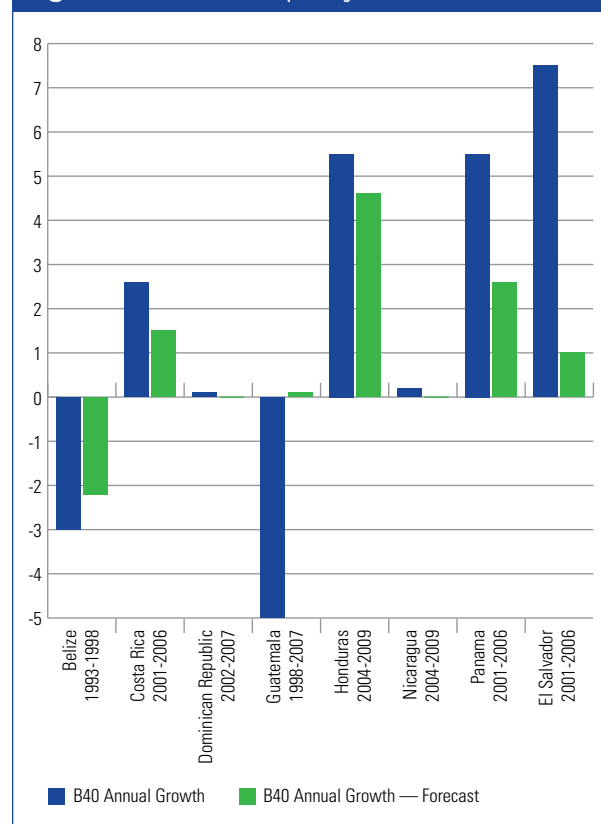
Source: Government of Belize and Caribbean Development Bank (2010).

Economic stagnation, particularly in some key sectors, and natural disasters may have contributed to an increase in poverty. GDP per capita remained virtually flat after 2003 because the economy grew close to—and at times even below—the annual rate of growth of the population, estimated around 2.5%. The food and fuel price crisis and the global economic recession further aggravated the economic situation of the country after 2008. Despite the higher food prices, key agricultural sectors such as bananas, sugar cane, and papaya witnessed an economic slowdown. Job creation and employment also decreased across the board. In addition to this, several parts of the country such as Corozal, Orange Walk and Cayo were hit by severe flooding in 2007 and 2008. These trends may have contributed to increase poverty in the country, although it is difficult to affirm if this is really the case in the absence of more recent data.

The available data suggests that observed poverty levels in the past remained high in spite of a significant amount of resources spent on social protection (estimated to be in excess of 5% of GDP in 2010). This spending has not translated into results, evidenced by the large number of poor families that remained vulnerable in Belize up to when data was available. The Social Protection System in Belize is inadequate to address the risks these vulnerable groups

face due to poor resource allocation, weak targeting, and low program effectiveness. When facing hardship, the poor most often seek informal sources of assistance to solve their problems, which underscores the limitations of Belize’s existing safety net.

Figure 8: Shared Prosperity in Central America



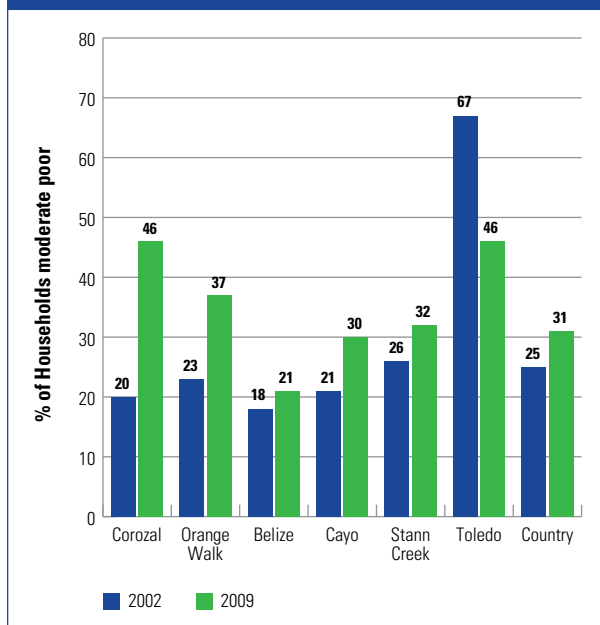
Source: World Bank staff estimates based on Dollar, D., T. Kleinberg, and A. Kraay (2013). For details see de Piniés and Saldarriaga (2014).

Shared prosperity may have also worsened in Belize. This inference is informed by the contraction implied by decreasing average per capita income in the time period (1993-1998) when POVCALNET data was available (Figure 8).¹⁰ The bottom-40 is mostly situated in rural areas (Table 2).¹¹ There are also large spatial differences in the incidence of poverty in Belize. While extreme and

¹⁰ Previous poverty measures that date back to 1995 are deemed not comparable to those produced in 2002 and 2009 because the adult equivalency is calculated differently.

¹¹ With limited access to household data for the most recent period, it is not straightforward to know if the income for the bottom 40% grew faster than the mean average of the population or that for the top 60%.

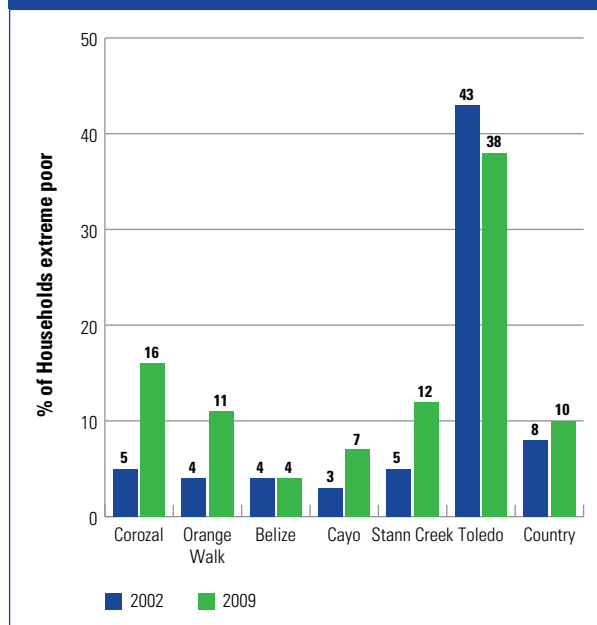
Figure 9: Moderate Poverty rates across Districts (% households, 2002 and 2009)



Source: Government of Belize and Caribbean Development Bank (2010).

moderate poverty increased in all districts but Toledo, the poverty headcount as of 2009 varies across districts. Available data show that 46% of the households in Toledo and Corozal—the districts with the highest poverty rate in the country—are poor (Figure 9). Also, whereas household poverty fell from 67% to 46% in Toledo between 2002 and 2009, attributed largely to an increase in cocoa production, it more than doubled in Corozal, jumping from 20% to 46%. Conversely, the district with the lowest incidence of poverty is Belize City with 21% of the households falling below the poverty line. The incidence of extreme

Figure 10: Extreme Poverty rates across Districts (% households, 2002 and 2009)



Source: Government of Belize and Caribbean Development Bank (2010).

poverty is also heterogeneous across districts. The fraction of households that live below the extreme poverty line is almost four times larger in Toledo than in the overall country. Similarly, districts such as Corozal, Stann Creek or Orange Walk have extreme poverty rates that are above the national average (Figure 10).

Households in rural areas with a larger number of members headed by individuals with low levels of education, exhibiting lower female labor participation and belonging to ethnic minorities are more likely to be poor. Looking at the numbers for 2009, poverty –

Table 3: Extreme Poverty rates across Districts (% households, 2002 and 2009)

Household	RURAL POVERTY		URBAN POVERTY		RURAL % OF TOTAL	
	Indigent	All Poor	Indigent	All Poor	Indigent	All Poor
2002	12.7	33.7	3.3	17.2	75	61
2009	18.1	43.1	4.1	21.1	78	63
Population	Indigent	All Poor	Indigent	All Poor	Indigent	All Poor
2002	17.4	44.2	4.8	23.7	72	54
2009	25.8	55.3	6.2	27.9	80	66

Source: Government of Belize and Caribbean Development Bank (2010).

Table 4: Extreme Poverty rates across Districts (% households, 2002 and 2009)

ETHNIC GROUP	2002		2009		% OF POPULATIONS 2009	
	Indigent	All Poor	Indigent	All Poor	Indigent	All Poor
Creole	5	27	9	32	15	21
Mestizo	6	30	13	42	40	48
Maya	55	77	51	68	34	17
Garifuna	2	24	12	39	6	7
Other*	8	28	11	35	5	6
ALL Groups	11	34	16	41	100	100

Source: Government of Belize and Caribbean Development Bank (2010).

Table 5: Poverty by Gender, 2009 (% of Age Group)

ALL AGES	INDIGENT	ALL POOR*	NOT POOR	TOTAL
Male	17	42	58	100
Female	15	40	60	100
15 YEARS AND OVER				
Male	14	38	62	100
Female	12	36	64	100

Source: Government of Belize and Caribbean Development Bank (2010).

measured at the household level— is twice as large among rural households (43%) relative to urban households (21%) (Table 3). Poverty is also correlated with the size of the household: 59% of households with six or more members are poor compared to 26% of households with four individuals. Similarly, the incidence of poverty varies with the level of education of the household head. Half of the households whose heads have none or incomplete primary education are poor, a proportion that falls to 18% for those that accumulate secondary education. Regarding labor force participation, households where women work are far less likely to be below the poverty line.

The existing data shows that the Mayans have the highest poverty incidence levels. Breaking down the population by ethnic groups Mayans have twice the poverty incidence experienced by Creoles in Belize (Table 4) or other ethnic minorities. Poverty incidence by gender, on the other hand, does not seem to indicate any significant disadvantage to women. In fact, the data available shows lower poverty rates for women across different age groups (Table 5). Further analyses

of socio-economic characteristics of poverty, including significant shortcomings in the quality of education, as well as the social policies which the Government has pursued to reduce poverty and boost shared prosperity are reviewed in chapter 5.

Growth Performance—Stop and Go

There are two main growth sectors in Belize: agribusiness and tourism. Tourism is the single most important industry, contributing roughly 28% of employment and 21% of GDP. The country's natural beauty is the main attraction, making eco-tourism a specialty in Belize which has the world's most important live coral reefs and lush forests that have unfortunately been subject to frequent illegal logging activity. 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% in 1986 to 13% in 2008, they remain 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 light manufacturing, mainly of agricultural products.

The tourism sector has strong potential to increase growth and investment in Belize. The sector is now operating under the National Sustainable Tourism Master Plan ("The Master Plan") that sets the tourism strategy and objectives through 2030. While the Master Plan envisions a 3.8% CAGR increase in the tourism sector by 2030, current estimates put overnight sector

Box 1: Knowledge and Data Gaps on Poverty Limit a More Thorough Analysis of Poverty Dynamics

The Statistical Institute of Belize (SIB) could only make available to WB team data from the 2009 Household Budget Survey (HBS) – the data from the 2002 survey was not available. Thus, it was impossible to do any decomposition analysis to understand the relative importance of different factors that have contributed to poverty changes between 2002 and 2009. Additionally, the SIB could only make available the processed HBS 2009. There was no corresponding information on how the data was processed, and the variables in the dataset did not cover the full set of questionnaire variables. Therefore, the poverty analysis presented in this SCD is based mostly on secondary information, with limited tabulations stemming from the HBS 2009 whenever possible.

Important knowledge gaps that prevented a better understanding of poverty dynamics include (i) the analysis of the elasticity of poverty with respect to economic growth, and (ii) the contribution of different income sources to the reduction of poverty (including pensions, government transfers, remittances, and labor income). Similar data gaps prevented a more thorough assessment of the main determinants of income inequality, including the contribution of growth.

growth alone at 9%. Going forward, the Master Plan envisions a balancing of the past smaller-scale, boutique tourism model with one including more flagship properties. Belize had not been able to attract larger-scale flagships due to its risk profile, recent nationalizations, and non-conducive legislative framework. The legislative framework would require increased clarity in terms of how FDI is processed and evaluated to create a level playing field for both FDI and local investment. Currently 60% of accommodations are owned by local investment 40% are owned by expatriates. The finalization of the Master Plan has been welcome from investors. Belize is also evaluating

how to bring more tourists from non-US destinations (like Europe and South America) as well as opportunities in medical tourism due to lower relative healthcare costs and proximity to US markets. Costa Rica is Belize's primary competitor, followed by Guatemala.

The agri-business sector also exhibits strong growth potential. Agri-business potential exists where citrus fruit and livestock production could be converted to value added products for exports and use in the tourism sector. Value-addition has already begun with sauces and spices but could extend to jams, jellies and fruit juices. This would require attracting international buyers, processors and growers to Belize. The future growth of agro-processing in Belize will depend on: i) Trade policies in Europe where Belize sells most of its sugar due to preferential access (expiring in 2016), ii) an increase in commercial food farming requiring inputs such a capital for land development, irrigation facilities, the availability of large land parcels without impinging on protected biodiversity areas, the opening of new export markets and, iii) transport, storage and logistic infrastructure for cash crops and processed products. Positive developments have already occurred in the market evidenced by diversification into non-traditional crops such as papaya, hot peppers and cocoa, two large FDIs in the sugar sector in 2012, Caribbean countries exploring supplies from Belize, and regional companies looking to expand into the Central American market via Belize.

The oil sector is an ever present option in terms of diversifying sources of growth and revenues but it attracts a great deal of challenges and risks. Oil production at Spanish Lookout near the inland border with Guatemala started in late 2005/early 2006 and now contributes roughly 7% of GDP although reserves are dwindling rapidly. Exploration of off-shore oil production opens up significant wealth creating opportunities, but it also presents challenges as it would likely impact biodiversity, the coral reef and eco-tourism, themes which are discussed in chapter 5. Government oil revenue has been an important complement to tax income, although it has been declining rapidly in recent years and now also impacted by the recent plunge in oil prices.¹² Food processing and

¹² During fiscal years 2009 through 2011, the Government received about \$100 million in revenues from Belize Natural Energy (BNE), 60% of which was in the form of income tax, 24% was in royalties, and 16% was in working interest and production sharing. See Wacaster (2013).

other services comprise the remainder of private sector manufacturing activities. The information communication technology (ICT) industry may be promising, given Belize's proximity to the US and Belize's adoption of English as its official language.

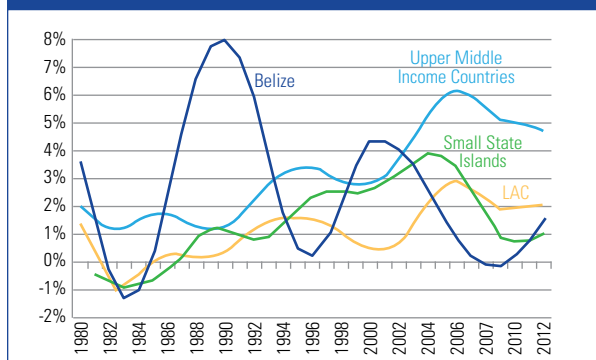
Employment has been growing most quickly in the services sector (69% of the total in 2012 vs. 58.5% in 2000) where the public sector is large and growing rapidly. The services sector represents roughly 45% of the country's total exports. It is also important to underscore that the public sector in Belize is large in relation to the economy and has a tendency to grow rapidly. For example, Belize's public sector wage bill is high by regional and international standards.¹³ Belize's wage bill increased significantly since 2000 partly because of a doubling of the government payroll, including teachers, but as reviewed in the next section, educational achievement in Belize remains well below regional levels. The wage bill also increased because of very generous salary increases that were well above inflation. On average, public sector wages increased by 5.5% per year during 2000-2013, compared with an inflation rate of 2.1% per year during the same period.

Per capita income growth in Belize has been volatile relative to other LAC and MIC countries, as well as in relation to SIDS. Two cycles of intense growth are evident in Belize since 1980 (Figure 11). The first was associated with a boom in tourism that was initially financed by FDI flows and, once they dried, by a sharp increase in government investment. The expansion in government expenditure quickly shifted the public sector from overall balance in the 1980s to a deficit of 8% of GDP by 1993. This was mirrored by an even larger current account deficit. An adjustment program ensued which coincided with stagnant per capita income levels (Figure 12).

Economic performance during the early to mid-1980s was affected by the sharp deterioration of the country's terms of trade and an inadequate domestic policy response. Economic growth averaged only 1.2%

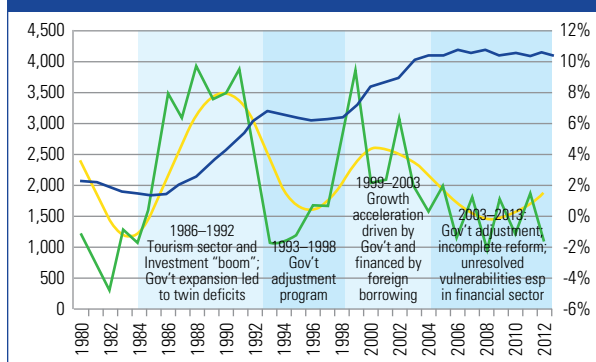
13 According to Bouhga-Hagbe, J. and M. Ronci (2014, page 49), "Even when one excludes non-contributory pensions and teachers' salaries under transfers, the wage bill in Belize represents about 10.5% of GDP, 45% of government spending and absorbs 47% of government revenues. In other parts of the world, the wage bill is on average 5–8% of GDP, represents 15–31% of government spending and absorbs only 17–30% of government revenue."

Figure 11: Per capita GDP growth: Belize vs. LAC and Upper Middle Income Countries 1980-2012



Source: World Bank staff estimates using an H-P filter and World Bank WDI.

Figure 12: Stop and go policies in Belize (US\$ lhs and % rhs)



Source: World Bank staff estimates and World Bank WDI. Hodrick-Prescott filter yellow and actual per capita GDP growth green (both rhs). Per capita income in Belize blue line (lhs).

per year during that period. In 1984, real GDP growth expanded by 4.4% in the wake of a temporary recovery of sugar prices and increases in public expenditures. However, that rate of growth was not sustainable since it was achieved by means of expansionary demand management policies that resulted in non-sustainable domestic and external imbalances. In 1985, economic growth slowed down to 2% as sugar prices and exports fell to their lowest level in six years. The Government responded to the deteriorating economic conditions by introducing tight demand management policies designed to eliminate domestic and external imbalances.

In 1986, the economy recovered as real GDP rose by 5% reflecting the expansion in construction and services. Substantial increases in the production of bananas, oranges and grapefruit were achieved. In

1987, real GDP expanded by almost 14%. This spectacular growth reflected sharp increases in practically all economic activities and was fueled by rapidly expanding exports of bananas, citrus concentrates, garments and tourism. The increase in banana output was promoted by the privatization of the industry in 1985 which enabled farmers to respond adequately to the higher prices in the preferential UK market. The increase in citrus production, in turn, stemmed from the opening of the US market through the Caribbean Basin Initiative.

In the second half of the 1980s, real GDP growth exceeded 10% per annum on average, with strong contribution from all sectors of the economy. Sugar export receipts grew by 80%, production and exports of citrus nearly doubled and that of bananas tripled. Tourism arrivals more than doubled and receipts tripled. Led by public infrastructure investment and tourism-related construction, construction boomed and in turn boosted trade and transport-related activities.

Macroeconomic policies played a key role in the improvement of Belize's economic performance during 1985-90. After the successful implementation of a stabilization program supported by an IMF arrangement in 1985, Belize made steady improvement in the fiscal performance while expanding its infrastructure investment. The real exchange rate depreciated vis-à-vis the dollar and private sector activity and capital inflows increased. On the external front, Belize benefitted from a wide array of preferential trade agreements and improvements in the terms of trade; as well as the depreciation of the U.S. dollar. Official grants also provided the country technical and financial support for public investment and other development initiatives.

The performance since the mid-1980s contrasts sharply with the economic difficulties faced by Belize during the early 1980s, a period where sharp declines in export earnings and the Government's efforts to stimulate the economy by running fiscal deficits led to a deterioration of internal and external imbalances. Real GDP growth was over percentage points higher during 1986-1990 than in 1981-1985; inflation, was almost 4 percentage points lower over the same period; the current account deficit improved; and international reserves increased sharply.

In the early 1990s, the once favorable external environment turned against Belize. Growth slowed in

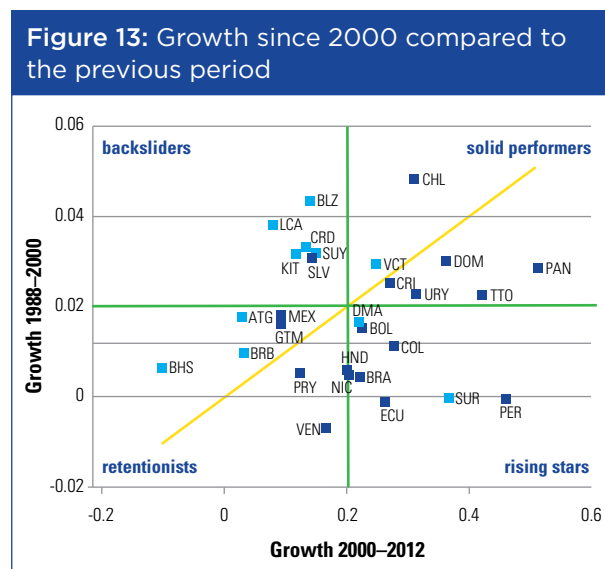
the United States and in Europe, lowering prices for Belize's merchandise exports and dampening the demand for tourism. The country's terms of trade weakened, and concessional financing dried up. The British Government withdrew its troops, a development that is estimated to have reduced gross domestic expenditure by 5%. This reduction amounts to more than the production of the citrus industry, Belize's third largest industry, and constitutes a substantial shock. These economic downturns were exacerbated by increases in interest rates caused by high fiscal deficits. Beginning in 1993, the economy faced a significant slowdown, and real GDP growth averaged about 2.7% a year, the same rate of population growth, leading to the stagnation of income per capita that has lasted until today.

Another boom-bust cycle was ushered in the late 1990s with a new round of government expenditure financed principally by foreign borrowing. Both episodes of stop and go growth broadly coincided with long stretches of flat per capita income levels in Belize.¹⁴ Per capita income in the country has remained stagnant since the early 2000s. To be sure, the country did double average per capita income levels since 1980, but in relation to other LAC countries, Belize's per capita income performance which was average in the 1990s has become a laggard in the 2000s (Figure 12).

During the last decade, economic growth in Latin America and the Caribbean was very different than the growth experienced during the 1990s. Moreover, economic development seems very heterogeneous in the LAC region, with some countries surpassing previous growth performance and others lagging behind. Belize has been one of the countries that have backslided during the last decade, experiencing slower growth rates than in the previous one (Figure 13).

Once a top performer, Belize is now lagging behind due to insufficient structural reforms in a number of areas. In order to have a better understanding of the drivers of economic development of the different countries in Latin America during the last decade, Araujo et al. (2015) have revisited the Loyaga et al. (2005) study on the determinants of growth in the region, in order to assess which variables related to

14 For a good summary account of the stop and go growth cycles in Belize see Martin and Mangano (2010).

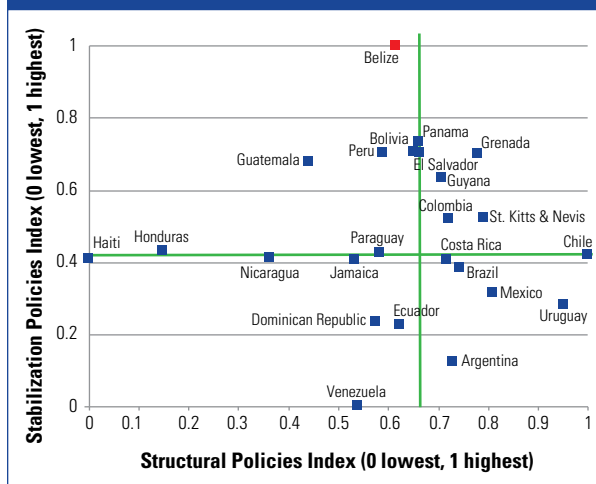


Source: World Bank staff estimates based on Araujo et al. (2015).

structural and stabilization policies matters most for the growth in the LAC countries. Using 5-year non-overlapping panel data for a sample of 126 countries during the 1970-2010 period, the study replicates observed GDP per capita growth and assess how much of the contribution to predicted GDP arises from persistence, structural policies, stabilization and external conditions. The results of the study allow us to estimate counterfactual levels of GDP per capita for the LAC countries by benchmarking the determinants of growth (Figure 14). In the case of Belize, the study shows that the country was a top performer among the LAC countries in terms of the stabilization index, using the variables related to stabilization policies (inflation, real exchange rate and banking crisis). With respect to the variables related to structural policies (financial development, education, political institutions, trade openness, infrastructure and government size), Belize's index was below the median for the LAC countries (the dotted line). The analysis gives a sense that more could have been done in the field of structural policies to improve Belize's economic performance in the period.

Much of the stop and go growth can be attributed to poor fiscal discipline. Empirical evidence produced by the SCD team following the methodology of Frankel, Vegh and Vuletin (2014) suggests that fiscal and budgetary policies in Belize have followed a strong procyclical stance during most of the 1990s (see Carneiro and Garrido (2015)). This has only recently been converted into a mild counter-cyclical stance after 2005 (see Figure 15 which shows Belize as “recent graduate” from pro-

Figure 14: Structural and Stabilization Index (2005–2010)¹⁵



Source: World Bank Staff Calculations based on Brueckner (2014)

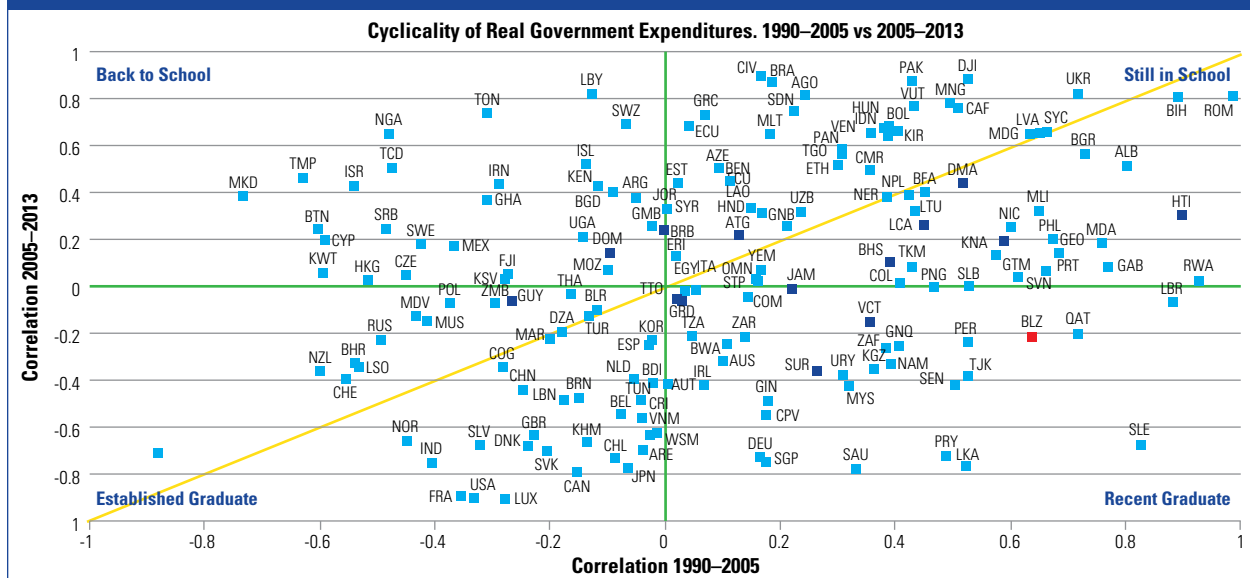
cyclical fiscal policy). As a result, it has only been in recent years that the Government has been able to support economic activity during a downturn without fanning the flames of a boom-bust cycle. Given a fixed exchange rate to the US dollar, monetary policy is not used actively to dampen the business cycle. The outlook beyond 2015 is for the fiscal primary balance to remain in deficit (currently at 1.5% of GDP in 2014) because of expansionary fiscal policies—including wage increases and new projects financed with PetroCaribe resources.¹⁶ In this regard, Belize needs to adopt a more ambitious fiscal stance that could create the policy buffers needed to help contain downside risks.

The country's fiscal situation has been characterized by consecutive years of deficits which improved after the debt exchange in mid-2000s but has started to deteriorate after a second restructuring on 2012-13 on the back of falling revenues from the oil sector.

¹⁵ For Belize, data for the Political Institutions variable (Polity2) is not available for the 2005-2010 period. For Haiti and Honduras, data for the education variable (years of schooling) is not available. We penalize less for no availability of data as the structural policy index is constructed by taking the sum of the multiplication of the log-level of each variable and the unconditional effect coefficient and dividing it by the sum of the coefficients for which there is available data for the 2005-2010 period in each country case.

¹⁶ Belize imports an average US\$84 million of oil per year through the PetroCaribe program. The resulting debt, used for infrastructure projects and balance of payment support, has built up to 9 percent of GDP (see Varma et al. (2015)).

Figure 15: Cyclicity: 1990-2005 vs 2005-2013



Source: Correlation coefficient of the cyclical component of real government expenditure and real GDP. Source: Carneiro and Garrido (2015).

The expansionary policies adopted in the 1990s through to the first half of 2000s contributed to a significant deterioration in the fiscal account¹⁷. The fiscal deficit climbed to 10 percent of GDP in 2003 from 2 percent of GDP in 1996. Concurrently, the stock of debt soared to over 100 percent of GDP in 2003/4, an increase of approximately 30 percentage points in 3 years. Rising world oil prices and declining export prices coupled with sharp increase in external debt service led to a significant current account deficit which was principally financed through a build-up of external public debt. As debt service obligations rose and market financing became increasingly difficult to secure, the government resorted to financing from the central bank, whose international reserves fell below one month of import coverage by end-2005. This erosion of reserves left the Belizean economy highly vulnerable to both endogenous and exogenous shocks.

The bulk of the GOB's revenues are derived from taxes, accounting for approximately 86 percent of total revenues in recent years. In spite of the absence of any analysis of the effect of taxation on poverty and inequality in Belize, close to 60 percent of taxes are

from VAT and tariffs. Income taxes which are usually more progressive, accounting for around 28 percent of annual revenues. Revenues from the oil sector has been on the decline and it is anticipated that oil revenues will continue to fall, particularly in the current context of falling prices as well as capacity constraints at existing wells. In this context, the overall structure of the fiscal system on the revenue side is largely regressive. The government commits, on average, 14 percent of budgeted expenditure to subsidies and current transfers, which are in principle meant to be more beneficial to those at the bottom of the income distribution, however, in the absence of a formal targeting mechanism it is difficult to delineate alignment with poverty reduction priorities.

The stop and go pattern might also be attributed to terms of trade shocks given the preponderance of agriculture and commodity exports of Belize.

Although Belize shows a degree of economic diversification which is higher than other small states, the composition of exports is still concentrated on primary products and other goods without much technological sophistication (see Figure 16). The high openness to trade in Belize has not yet translated into greater export diversification and sophistication (see Figure 17) while the country also has one of the highest tariff regimes in the world (Figure 18). Producers, especially exporters, also faces distortions to incentives

17 In the aftermath of the adverse impact of a series of cyclones in the economy in early 2000s, the authorities implemented a number reforms to jumpstart economic activities in the country.

and high costs created by the high and uneven tariff and non-tariff barriers to trade and associated tax policy distortions (see IADB, 2013b). The limits on export diversification and high costs associated with

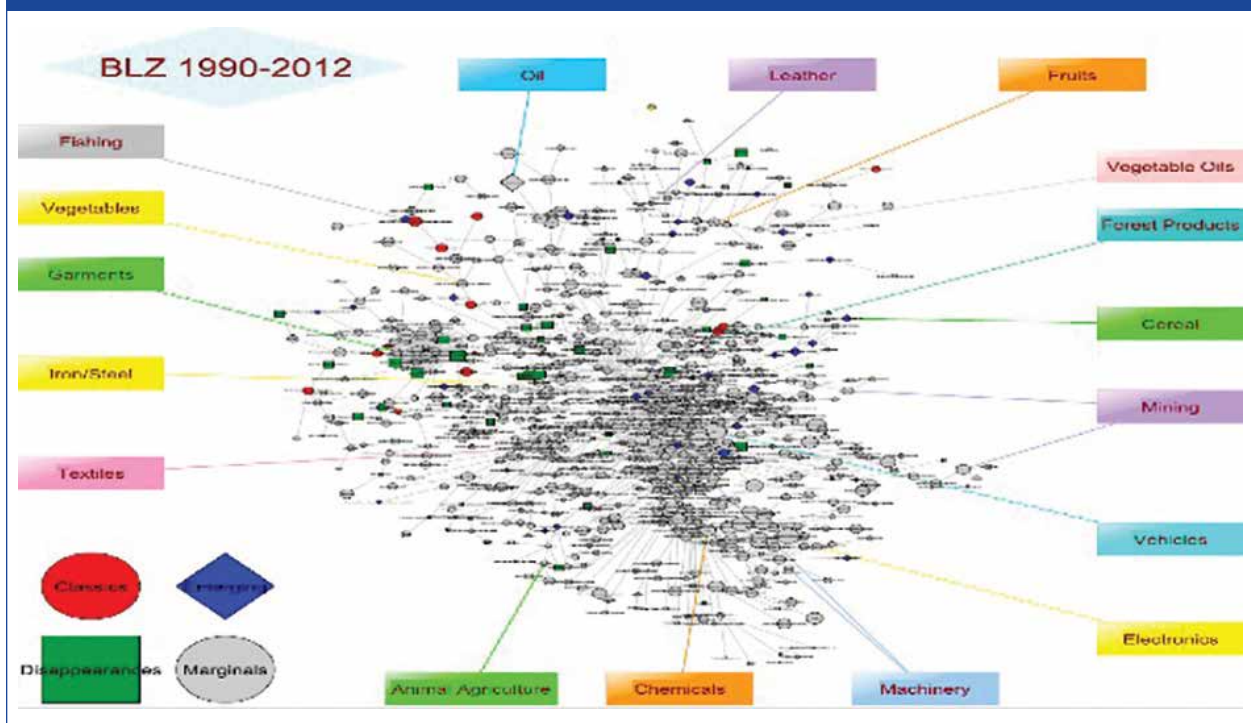
tariff barriers observed in Belize are to a great extent associated with the country's size, as smaller countries face several challenges to diversify and tend to have high tariffs.

Figure 16: What did Belize export?

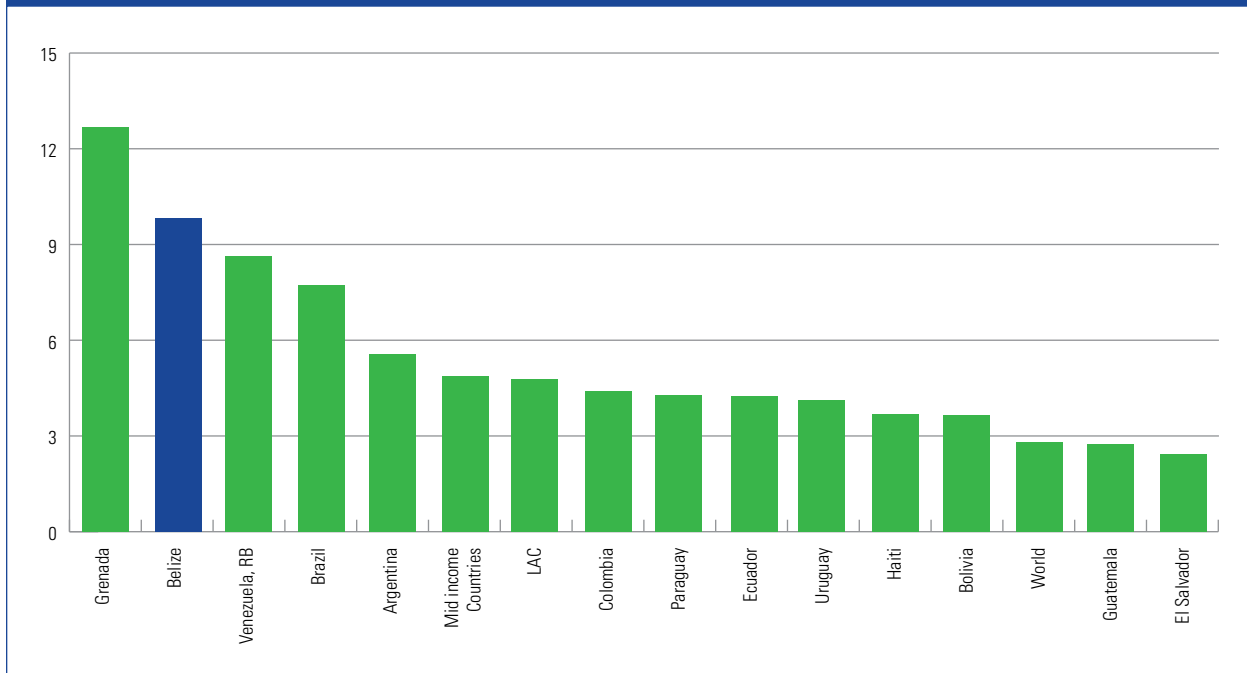


Source: World Bank staff estimates based on Central Bank of Belize.

Figure 17: Product Space Map for Belize: 1990–2012



Source: World Bank staff calculations based on UN COMTRADE data. Note: In the product space map, "classics" are products with demonstrated competitiveness over time where it would be less risky to invest; "emerging champions" where Belize has increased its comparative advantage in global markets; "disappearances" products that were competitive in the past, but have lost that competitiveness more recently; and "marginals" where Belize had a low comparative advantage in the past and remain with low comparative advantage.

Figure 18: Tariff rate, applied, weighted mean, all products (%), 2013

Source: World Bank, WITS, UN and WTO.

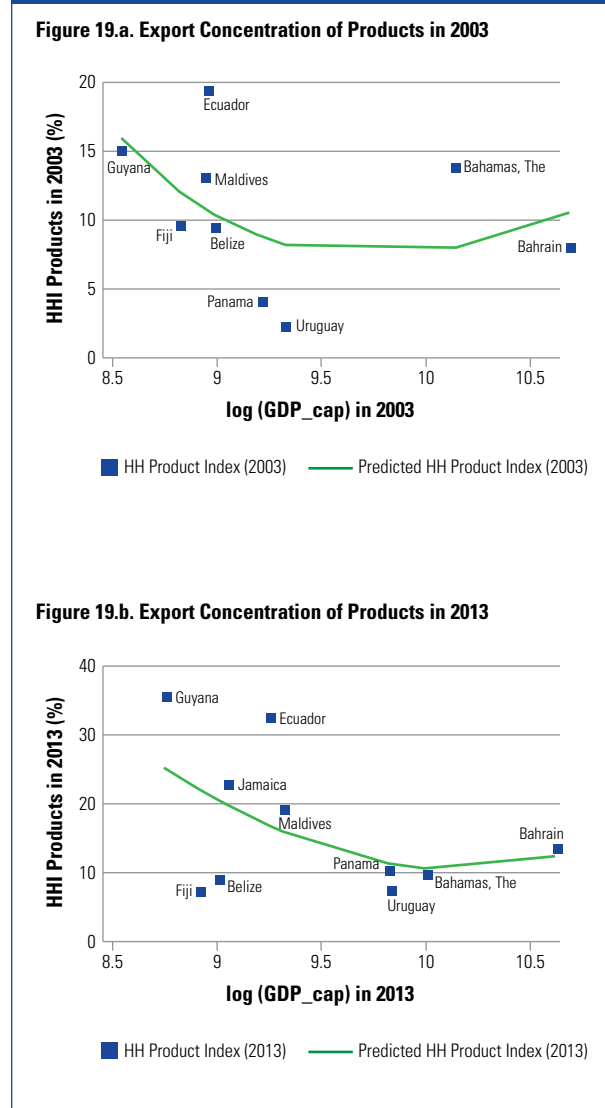
The degree of export diversification in Belize is higher than what would be predicted by its level of economic development. Figures 19.a and Figure 19.b. the U-shaped relationship between sectoral export diversification (Y-axis) and the level of development (GDP per capita on X-axis) for Belize and a few comparator countries in 2003 and 2013. The U-shape reflects the fact that countries tend to diversify their export basket as they get richer (the negative slope side of the U) until a certain level of development (zero slope of the U). At higher levels of development, countries tend to concentrate their exports in some key sectors benefiting from the effects of specialization. The Hirshman-Herfindahl Index of export concentration (HHI)¹⁸ in both 2003 and 2013 reveals that Belize's export basket is diversified relative to its level of development. Most importantly, the extent of export

diversification has increased in 2013 compared to 2003 level as demonstrated by the shift of Belize away from the U-shape that indicates a reduction in the concentration index (HHI) from 2003 to 2013.

While Belize shows signs of export diversification across products and markets, the technological content of its export remains low. As expected from an economy that specializes in agriculture and tourism, the level of complexity of Belize's export products remains low and its composition has not changed much over the past decade. Since 2003, primary products have dominated in Belize's export basket representing more than 50 percent of the country's exports. More than half of the country's export goods were primary products in 2003 as well as in 2013. Resources based products are the second highly exported goods in Belize, although their share dropped from 36 percent of total export in 2003 to 25 percent in 2013. High Technology embodied products are the least exported from Belize. High technology goods barely represented 1 percent of Belize's total export in 2003 and maintained the same share in 2013. Only medium tech goods improved over the past decade with their share increasing from 6 percent of total export in 2003 to 18 percent in 2013 (Figure 20).

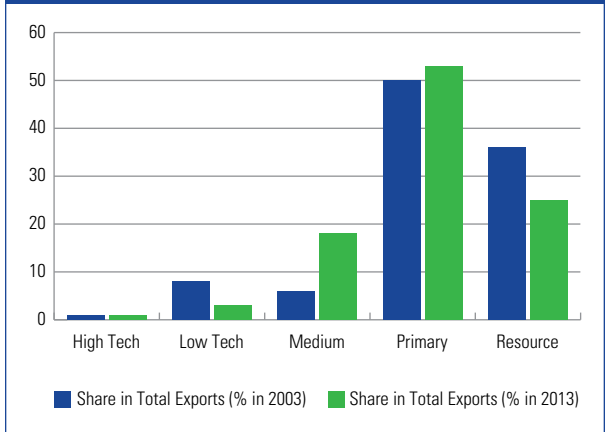
¹⁸ The Hirschman-Herfindahl Index is computed as the sum of squared nominal shares of each sector (2-digits Harmonized System (HS) 2 digit (S codes) in total export value. A country with a perfectly diversified export portfolio will have an index close to zero, whereas a country which exports only one product will have a value of 1 (least diversified). Thus, the Lower HHI index indicates the higher level of diversification. However, when using nominal values, the index is sensitive to changes in prices.

Figure 19: Export Concentration of Products in 2003 and 2013



Source: World Bank staff calculation using WITS, WDI data.

Figure 20: Technological Classification of Belize's Export: 2003 and 2013

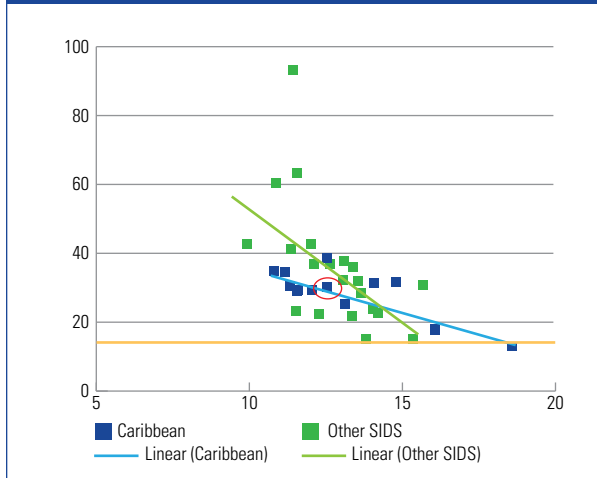


Source: WITS-UNSD COMTRADE, World Development Indicators

As a small economy, Belize confronts indivisibilities in the provision of public goods and services including in governance, institutions, and infrastructure among others. On average, small states spend 3.7% more of their GDP on producing public goods and services (see Favaro (2008)). Recent research has also shown that there is a clear negative relationship between population size and public expenditure/GDP amongst SIDS which is also apparent for Belize (Figure 21).¹⁹ The high fixed cost of governance and infrastructure leaves fewer resources for saving. Gross domestic savings/GDP has averaged around 10% in recent years in Belize which is well below the LAC average (Figure 22) whereas gross fixed capital formation/GDP in Belize has averaged about 20%. A domestic savings gap of this magnitude predisposes economies to current account deficits and a corresponding buildup of sovereign debt, although most SIDS and Caribbean economies are primarily financed through foreign direct investment (FDI) and remittances. In the case of Belize, capital inflows, especially FDI, are very large relative to GDP (Figure 23). FDI inflows averaged 9.2% of GDP in the country from 2005 to 2012 and represented more than 49% of gross fixed capital formation, versus 4.1% and 18% for Latin America. Other things being equal, higher FDI would usually be expected to raise the growth rate of a country through its impact on productivity. But this has not always been the case in Belize. Part of the reason might be that earnings from FDI are mostly repatriated (Figure 24) and not reinvested in the country.

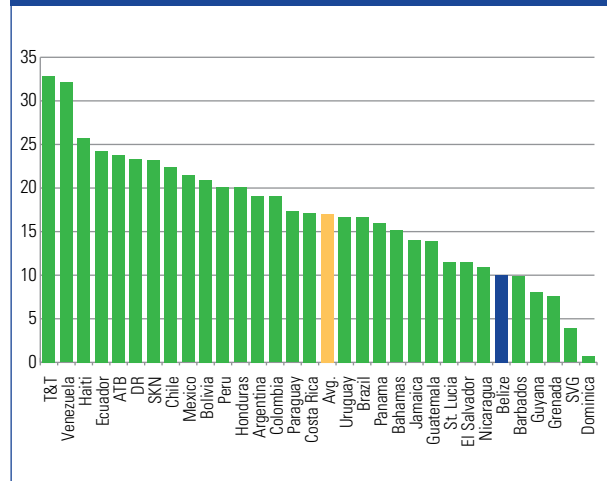
¹⁹ See de Piniés, Varma and Wacker (2014).

Figure 21: General Government Expenditure/ GDP vs. Economic Size, avg. 2000–2013



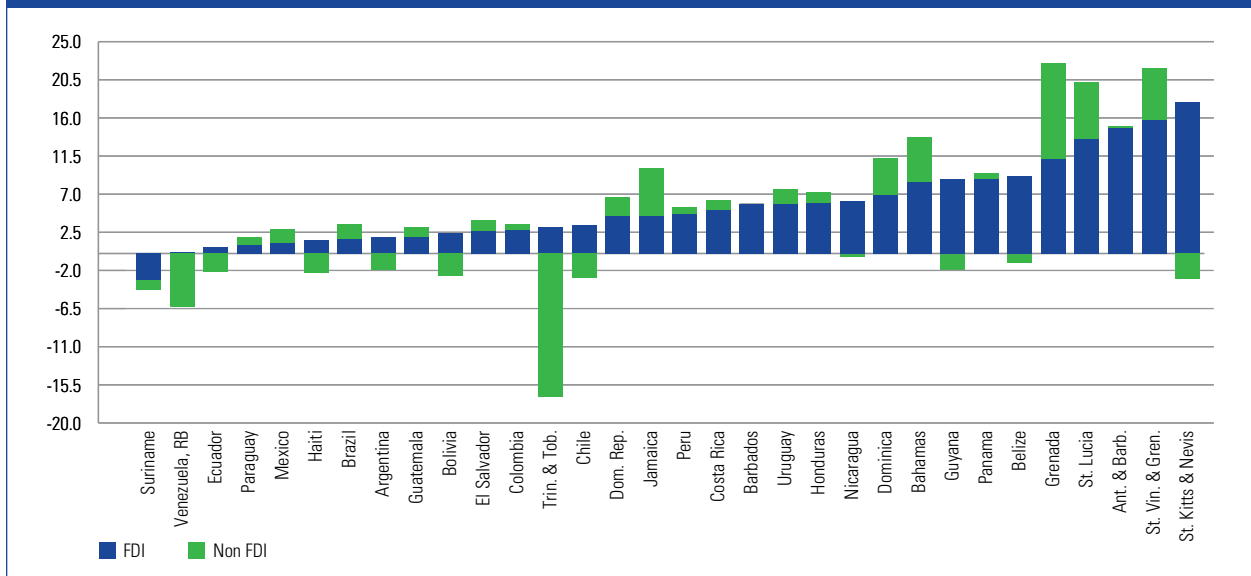
Source: World Bank staff estimates. Green line is average for lower middle income countries (17.8% in 2002-2012). Belize circled in red.

Figure 22: Savings/GDP, avg 2000-2013

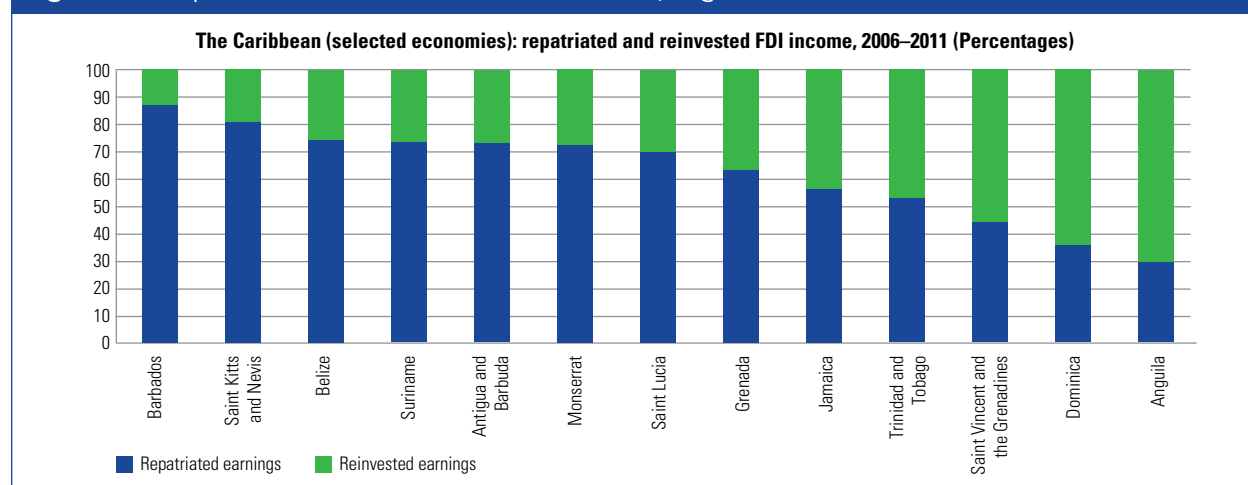


Source: IMF; WEO, October, 2014.

Figure 23: Net Capital Flows/GDP, avg. 2005-2012



Source: LCRCE based on Bloomberg, EPFR and IFS of IMF.

Figure 24: Repatriated and Reinvested FDI income, avg. 2006–2011

Source: ECLAC.

Growth Determinants

There has been substantive work that relies on the so-called “growth diagnostic” framework attempting to explain why per capita growth in Belize has stalled.

For example, the Hausmann, Rodrik, Velasco (2004) (HRV) framework explicitly attempts to identify the most binding constraint to growth which in principle should yield the greatest policy “bang per buck”.²⁰ In the case of Belize, Hausmann and Klinger (2007) undertook a growth diagnostic of the country and their findings are reported in Annex 1. The authors conclude that access to finance was the most binding constraint to economic growth in Belize in the middle of the last decade. In particular, they highlight low savings, low access to international finance, and the high domestic cost of finance. These problems were linked to government-led investment during expansion periods that induced public deficits, crowding out and the high cost of finance.

Often cited as a significant binding constraint to growth, Belize’s financial system is viewed as

constraining credit. Belize has one of the highest spreads between lending and borrowing rates in the region reflecting a lack of competition (see Figure 25 and Figure 26). The banking system is highly liquid, yet access to finance remains a key constraint for underserved groups. Factors affecting access to finance include underdeveloped financial infrastructure, low literacy levels, complex requirements to access credit (immovable collateral), few products (little use of factoring or cash flow based lending, prohibitive costs of micro-insurance) and, on the real side, few productive activities due to high cost of doing business in Belize. According to the IMF (2014), Belize’s financial sector continues to pose non-negligible financial stability and fiscal risks, although the gap between non-performing loans (NPLs) and provisions has been narrowing. The EMBI spread of Belize remains at high levels, significantly higher than the average for LAC or Jamaica. However, given the small size of the country, the costs for commercial banks to operate in the country are expected to remain high as they actually are in comparable countries which share the same characteristics as Belize’s.

The excess liquidity in the banking system is not accompanied by profitability. As argued in a recent IMF report, the accumulation of reserves above statutory requirement is a recurrent practice in Belize but these reserves are not evenly distributed across banks. One domestic bank accounts for about 60% of the total. In addition, loan write-offs, high NPLs and increased provisioning are eroding net earnings. The

²⁰ See Hausmann, Klinger and Wagner (2008). As explained in Garrido, Hamid, and Salisbury (2014), the HRV framework appeals to the logic of Liebig’s Law (after German chemist Justus Von Liebig) also known as the Law of Limiting Factors applied to agricultural science which states that a plant’s performance is affected not by the most abundant resource, but by the most deficient one (very much like a Leontief production function). A plant will only yield as much as the least available nutrient allows.

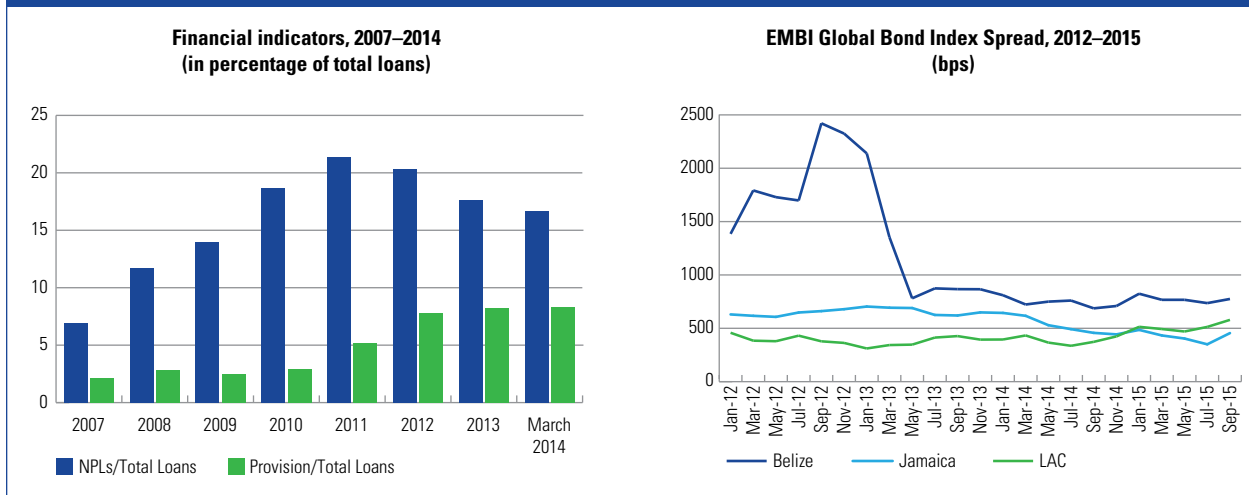
banking sector's returns on assets have become positive in 2013 for the first time since 2010. The Central Bank of Belize's new regulation requiring higher provisioning and more stringent loan classification, including write-offs, has mitigated some of the risk in the sector but loan concentrations remain a concern and an asset quality review of the underlying collaterals could be beneficial to the system.

During consultations with stakeholders, the topic of correspondent banking linkages emerged as a significant concern. Recent considerations by the U.S. Treasury concerning de-risking measures surrounding AML/CFT concerns have resulted in some US banks

closing their correspondent banking relationship with Belizean banks. This has raised a high level of concern both for the Government and the domestic commercial banks and international banks operating in Belize. Given the close economic relationship with the US and the relative small number of financial institutions operating in Belize, reconsidering correspondent banking linkages could have a magnified impact on Belize's financial sector.

A limitation of the HRV growth diagnostic framework, however, is the dynamic nature of constraints. As some are removed others become binding. Furthermore, any outstanding or emerging issue can turn into a

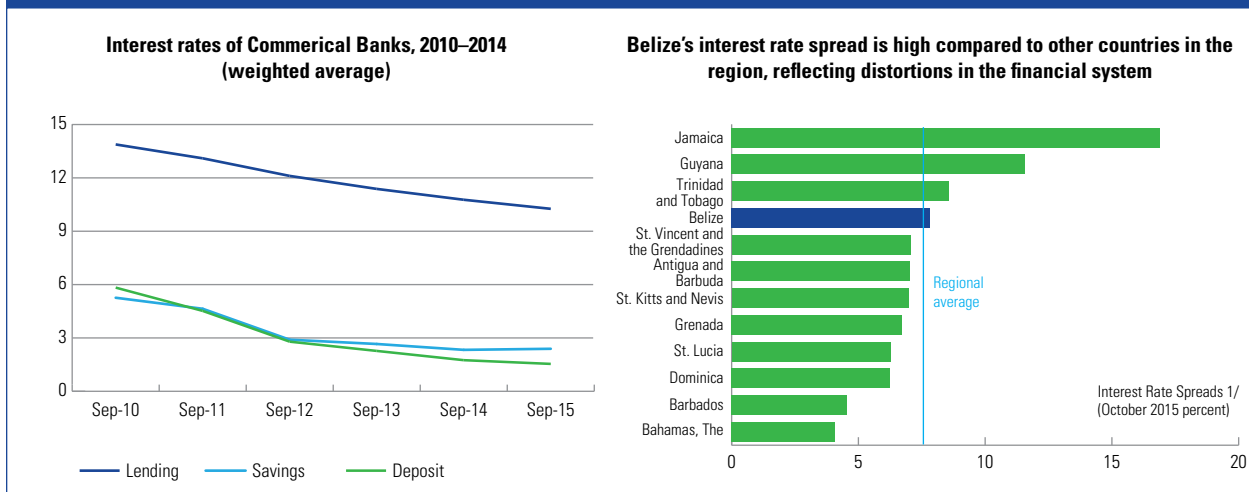
Figure 25: Financial Indicators in Belize



Source: Central Bank of Belize

Source: Bloomberg

Figure 26: Financial Intermediation in Belize



Source: Central Bank of Belize

Source: Central Bank of Belize; IFS; and Fund staff estimates. 1/Refer to the difference between lending and savings rates

binding constraint as a result of policy inaction, policy errors, or some external factor.²¹ In the case of Belize, and since the time in which the HRV growth diagnostic was prepared (2007), the high cost of finance has remained a significant constraint in the country, although perhaps less binding now than at that time. While high spreads between savings and lending rates (lack of competition in the banking sector) and low access to finance (as reported in Enterprise Surveys to be discussed below) have persisted, deposit and savings rates have come down by more than half (Figure 26) and the country has benefited from high FDI (Figure 23).

Recent research shows that high interest rate margins, in addition to other financial sector indicators, affect economic growth negatively.

Evidence from ten new EU members on the relationship between economic growth and financial sector development shows that the improved efficiency of the banking sector has played an important role as an engine of growth (Caporale et al. (2009)). In particular, the results show that liquid liabilities, the interest rate margin and reforms in the financial sector are all correlated with economic growth. Further, causality tests between economic growth and the interest rate margins show that causality runs from banking efficiency to economic growth and not the other way around in the EU-10; where a reduction in interest rate margins causes economic growth. Preliminary analysis for Belize shows a similar direction of causality.

The need to improve competition in the financial sector in Belize has led the Government to act.

In this context, a state-owned bank to stimulate greater competition in the banking sector has recently been created by the authorities. The issue here is that the creation of state owned enterprises do not resolve the national savings shortage nor do they solve the information gaps that may be behind the financial constraints in Belize. Lending on non-market terms can also easily become a slippery slope to lower investment efficiency and possibly bankruptcy.²²

21 For a fuller account of the limitations of the HRV approach see Aghion and Durlauf (2007) and Garrido, Hamid, and Salisbury (2014).

22 For a good review of the possible policy options to improve financial access in Belize see chapter 4 in Martin and Manzano (2010).

A recent update of the 2007 growth diagnostic of Belize has identified different binding constraints to growth.

Martin (2015) has used more evidence to update the results of the 2007 HRV growth diagnostic analysis and has arrived at different conclusions. In the most recent context, the most important binding constraint to growth in Belize seems to be related to an apparent anti-export bias in public policy that the author associates with an out of date trade policy. Another important constraint to growth identified by the author was the bad quality of infrastructure, especially roads and ports, which seem to affect the most the two main drivers of growth in the country, agribusiness and tourism. The high cost of domestic of finance was also ranked as a persistent constraint to growth, albeit of secondary importance now in comparison with the results of 2007.

There are, however, different approaches that point to additional and equally important factors that may be affecting growth in Belize.

A different approach to estimate the drivers of economic development was undertaken by Araujo et al (2015) which revisited the Loayza, Fajnzylber and Calderón (2005) study on the determinants of growth in LAC. The study aims to assess which variables related to structural and stabilization policies matter most for growth. Using 5-year non-overlapping panel data during the 1970-2010 period and system-GMM estimation to correct for endogeneity biases, the study replicates observed GDP per capita growth and assesses how much of the contribution to predicted GDP arises from persistence, structural policies, stabilization and external conditions. The results of the study allow estimation of counterfactual levels of GDP per capita for the different LAC countries by benchmarking the determinants of growth.

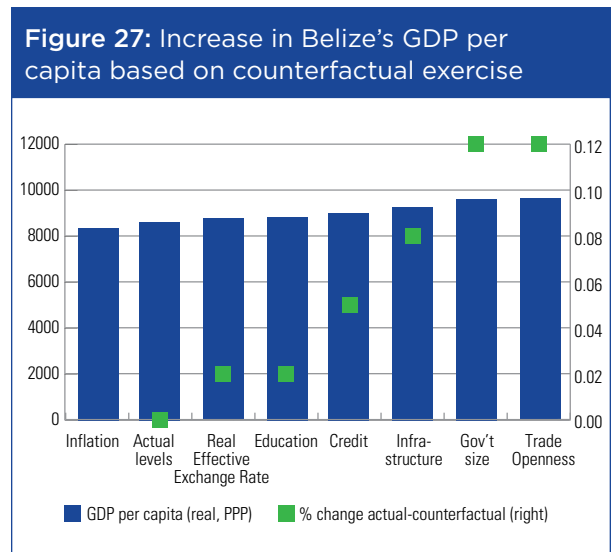
According to Araujo et al. (2015), the most binding constraints on growth in Belize are the lack of structural reforms including the persistence of trade barriers.

If during the 2005-2010 period Belize's trade openness had been the equivalent to the 90th percentile value for Latin America, its real per capita GDP would have been 12% higher (see Figure 27). As noted, producers in Belize, especially exporters, faces distortions to incentives and high costs created by the high and uneven tariff and non-tariff barriers to trade and associated tax policy distortions. Additionally, excess government size (for example, the high public sector wage bill), insufficient infrastructure investments,

inadequate access to finance and poor school quality were also found to be significant constraints on per capita income growth in the Araujo study.

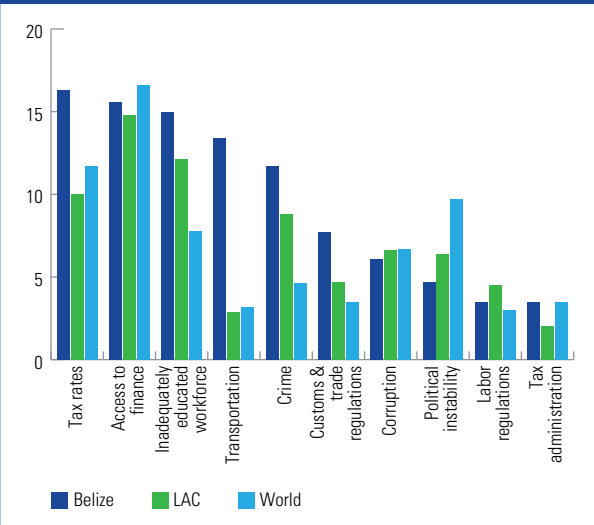
In fact, infrastructure quality in Belize appears to be an important constraint in a number of areas.

Available evidence suggests that the country has been severely affected by a significant contraction in public investment and the continuation of extreme and damaging climate events. Annual gross capital formation/GDP averaged 21.6% from 1991 to 2013 in Belize. It was about the same from 2000-2008, but it has since fallen to an average of only 16.7% in the most recent period of 2009-2013. Furthermore, the proportion of the Belizean road system considered to be in poor or bad condition increased from 12% (2007-2008) to almost 60% (2012-2013) (see IDB (2013)). The quality and maintenance of public infrastructure has been affected by both extreme weather events and the need to adjust government expenditure given high public debt levels. In addition, investable opportunities (self-discovery) might also be affected by factors other than access to or the cost of finance as evidenced by the high annual repatriation rates (low re-investment rates) of FDI and the Enterprise Survey findings to be discussed below. The high liquidity of the Belizean banking sector is partly justified by the banks due to the limited investment opportunities in the country.



Source: World Bank staff estimations based on Araujo et al (2015).

Figure 28: Major obstacles to business operations, 2010 (% firms)



Source: World Bank, Enterprise Surveys.

A third approach to economic constraints can be found in the World Bank Enterprise Surveys which provides firm-level data that benchmark the quality of the business environment.

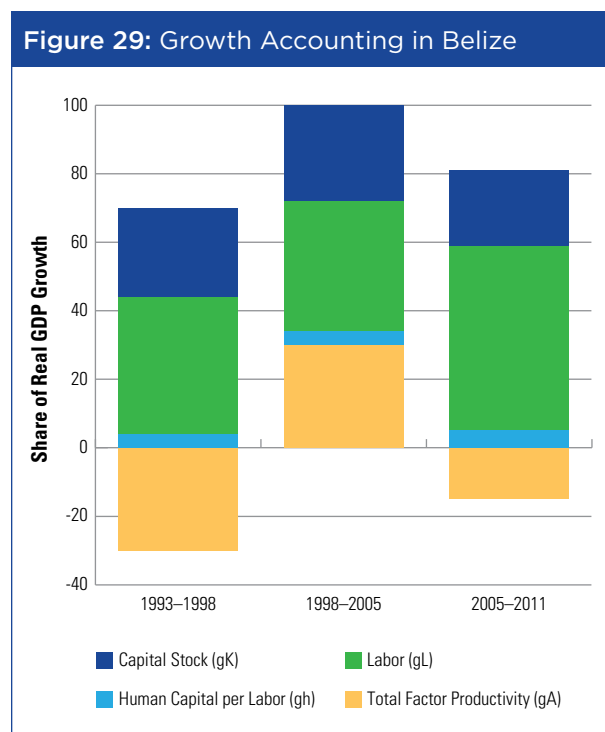
As can be seen in Figure 28, and from the point of view of the business community, Belize may need to invest in a better skilled labor force, lower tax rates, improved access to finance and improved transportation infrastructure to strengthen growth outcomes and to get more productivity spillovers from FDI. Tax rates appeared as the top concern to businesses. Rates are actually relatively low as businesses pay 31% of profit in taxes in Belize against 48% in average in LAC, according to the Doing Business Report 2015. However, the private sector is demanding to solve underlying structural issues in the business taxation regime that hamper formal enterprise growth.²³ These include misalignments and inefficiencies of the business tax regime and discretionary application of tax requirements and exemptions that create an uneven playing field for businesses. Note that relative to the rest of LAC and the world, Enterprises find that Belize is most constrained by deficient infrastructure.

Crime and violence is also often cited as an important obstacle to businesses in Belize.

Besides being a

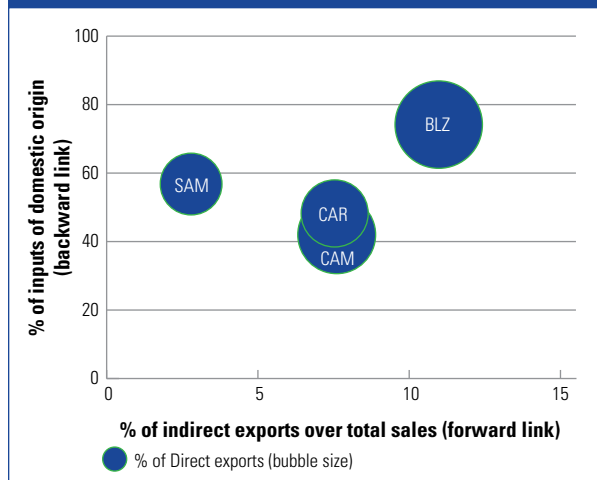
23 See White Paper on Investments by the Chamber of Commerce and Industry of Belize (2013) www.belize.org/

concern from the social sustainability point of view, crime and violence pose a threat to the country's competitiveness. In 2010, Belize ranked 123rd out of 142 countries globally in the competitiveness index computed by the World Economic Forum (WEF (2011)), with institutional factors (including security institutions) considered the fourth most serious concern (this will be addressed in greater detail in the next chapter). In terms of the costs of crime and violence to business, the performance of Belize is comparable to its neighbors (Guatemala, El Salvador, and Honduras) who together with Mexico, Colombia and Venezuela; and, Trinidad and Tobago, Haiti and Jamaica are all ranked in the bottom 10. In the 2010 Enterprise Survey, over 50 percent of firms in Belize considered crime, theft, and unrest a major constraint to their businesses, with nearly 12 percent citing this as the principal constraint (World Bank (2010)). Anecdotal evidence obtained from focus group discussions with the Belize Tourism Board and the Belize Chamber of Commerce suggests that crime is the biggest threat to the tourism industry, which is the leading economic sector in Belize. This perception seems to be in line with the evidence in Figure 28 which indicates that crime is a bigger problem for businesses in Belize than in the LAC region or the world at large.



Source: World Bank staff estimations.

Figure 30: Backward and Forward Linkages



Source: World Bank staff estimates based on Enterprise Survey. For more details see Sánchez Martín, de Piniés and Antoine (2014). SAM is South America and Mexico, CAM Central America, and CAR Caribbean countries.

A fourth method for analyzing long run growth determinants is the standard growth accounting model employing a simple Cobb-Dougllass production function. Using this methodology, labor is the key factor accounting for growth in Belize, but it is also apparent that the country may be suffering from an “efficiency” deficit given negative Total Factor Productivity (Figure 29). This residual outcome may be interpreted to mean that productivity spill-overs from relatively abundant FDI in the country are marginal, despite evidence of significant backward and forward linkages from FDI in Belize relative to the Central America, the Caribbean as well as South America and Mexico (Figure 30).

Emerging Focus Areas from the Comparative Methods

Different sources and methods confirm that growth outcomes in Belize are affected by a number of important factors under the control of the authorities. These include education and skills, access to finance, infrastructure, and crime (see Table 6). The cross-country benchmarking exercise confirmed that growth could be boosted with improvements in the quality of infrastructure (especially the road network), better access to finance, and a better educated labor force. The analysis of microeconomic survey data highlighted

Table 6: Emerging Focus Areas to Enhance Growth

	HAUSMANN AND KLINGER (2007)	MARTIN (2015)	ARAUJO ET AL. (2015)	ENTERPRISE SURVEY (2010)	GROWTH ACCOUNTING	EMERGING AREAS
Areas with the largest potential to affect growth	<ul style="list-style-type: none"> ■ Savings ■ Access to international finance ■ High domestic cost of finance 	<ul style="list-style-type: none"> ■ Anti-export bias of public policies ■ Infrastructure (roads and ports) ■ Cost of finance 	<ul style="list-style-type: none"> ■ Trade barriers ■ Size of government ■ Infrastructure ■ Access to finance ■ Education and skills 	<ul style="list-style-type: none"> ■ Tax rates ■ Access to finance ■ Education and skills ■ Infrastructure ■ Crime 	<ul style="list-style-type: none"> ■ Labor (education and skills) ■ Negative efficiency enhancers (including inadequate infrastructure, cost of crime) 	<ul style="list-style-type: none"> ■ Education and skills ■ Access to finance ■ Infrastructure ■ Crime

Note: The table shows the main factors that have been found to affect growth according to different methods and approaches. Emerging areas of focus are those that appear in at least two different methods.

crime and violence, as well as the inadequate supply of skilled labor, as the main factors affecting firm performance in Belize. There were other factors that were raised in some but not all analyses, perhaps due to the use of different methodologies and definitions, and these included trade barriers, the size of government, the cost of domestic finance, and access to international finance. In addition, a limitation of all of the approaches considered is that they fail to single out the lack of scale as an explicit binding constraint to growth in small economies.

Policy Areas that Could Boost Growth

Improving the quality of education will have a beneficial effect on the skills profile of the labor force and impact growth positively through a number of different channels. The evidence presented above and the results of discussions and in-country consultations with Belizean authorities and stakeholders reveals the importance of improving the quality of education. This could have a positive effect on skills and competitiveness and ultimately growth. While the quality of education will be discussed in more detail in the next chapter, it is important to stress at this point that better learning outcomes would position Belizean youth better to find better paying jobs in the domestic labor market or in potential markets overseas. To date, returns to skilled labor are concentrated in the public sector, and most sectors in Belize rely on unskilled labor. This is likely driven by supply-side constraints in Belize's labor

market. For businesses to engage in high productivity activities, a better skilled labor force is necessary. While the traditional schooling system of Belize scores high in terms of primary education completion rates, it is weak in secondary and almost all other measures of education. Additionally, quality and skills are also reported as inadequate by businesses despite rising public spending on education. Businesses and consulting services and training providers indicate that recent graduates (both from high school and university) do not possess the level of skills required by the job market. This suggests that significant investments are required to bridge the skills gap so as to ensure the labor force can meet the market demands.

Addressing financial inclusion can help increase savings and influence growth positively through investments. During consultations, stakeholders in Belize noted difficulties associated not only with the high domestic cost financing, which tends to be a common feature in small states given issues of scale, but also challenges faced by banks in establishing the creditworthiness of prospective borrowers and the profitability of their projects. Bankers cited as common the behavior of loan applicants not willing to disclose their information or loan applications without a clear cost-benefit analysis. In Belize, SMEs account for 70 percent of private sector employment and incomes, and contribute significantly to the GDP (Seepersaud (2012)). At the same time, SMEs have the most difficulty in accessing finance, both due to lack of real estate to pledge as collateral and substandard financial knowledge and management capacity. Policies that

could promote financial literacy and innovative financing for small and medium enterprises (SMEs), such as the introduction of factoring and leasing, for example, could go a long way to stimulate economic activity.

Infrastructure deficiencies in Belize present major obstacles to the growth and competitiveness of enterprises and the economy. Discussions with foreign investors and with government officials confirmed that the poor quality of the transport infrastructure in Belize increases costs and causes delay in the transport of goods within the country and internationally to neighboring states. In addition, port capacity is also very limited with only one port operating in the country and at non-competitive prices, thus increasing costs to exporters. According to the Doing Business report, the estimated cost for exporting a container from Belize is higher than both the Latin America and Caribbean and OECD averages (respectively, \$1,355; \$1,299; and \$1,080). In addition, firm-level data (ES 2011) reveal that 36.4 percent of enterprises identify electricity as a major constraint. Electricity rates for commercial and industrial enterprises range from USD 0.33 – 0.44, depending on consumption levels. These are considerably high, similar to the rates observed in the Caribbean, but higher than rates in Central American countries, which rely mostly on hydro sources. Agriculture sector representatives highlight that infrastructure deficiencies constrain investments in output growth and hamper the competitiveness of exports due to higher freight costs. Consultations with tour operators and other industry representatives indicate that the road infrastructure also impacts the growth of the industry.

Reducing crime and violence can help in many ways, including reducing costs, improving productivity, increasing investments and ultimately growth. The relationship between insecurity and development is complex, but in Belize's recent history, the deterioration in crime rates have coincided with somewhat lackluster economic and social indicators. After a period of relatively rapid economic growth between 1998 and 2003, Belize's GDP grew (only 3.1 percent in real terms from 2004 to 2012) barely above the 2.65 percent annual growth in the country's population, with the result that GDP per capita has remained broadly unchanged in real terms since 2004. Unemployment, on the other hand, has increased from 8 to 14 percent in recent years (and even more among youth, 23 percent

of whom are officially unemployed), while poverty increased from 33 percent in 2002 to 41 percent in 2009. Furthermore, over 60 percent of youth between 14 and 17 years old are not enrolled in school. It would be important to continue focusing efforts to increase the costs to individuals from undertaking criminal activities. On the other hand, it is also essential to find ways to increase the benefits to them from engaging in productive activities. This would require a concerted approach to create learning opportunities to steer vulnerable youth away from engaging in crime and illicit activities.



INCLUSIVENESS

The growth model in Belize, although based on population growth, has not been inclusive enough.

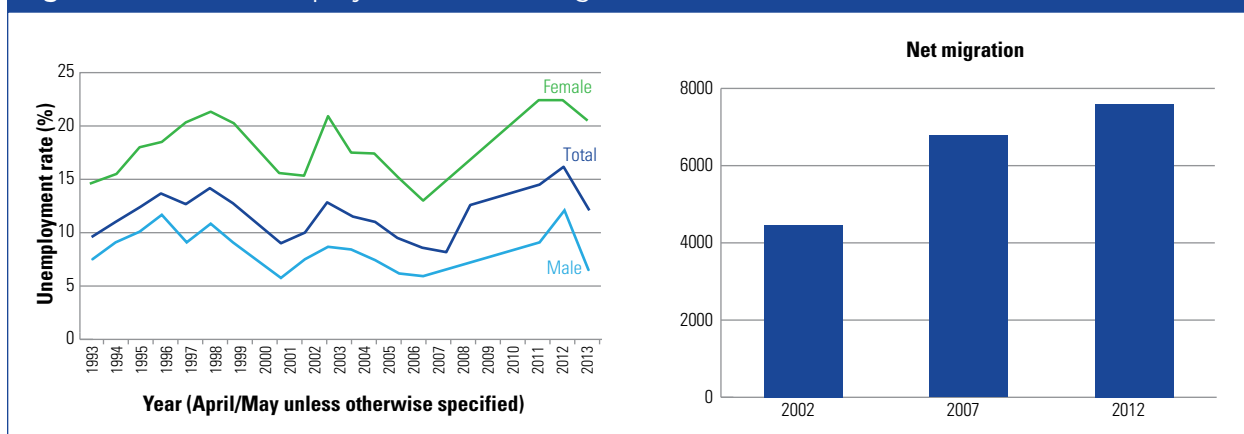
Rapid population growth, including net migration from neighboring countries estimated at 7,596 in 2012,²⁴ has been an important contributor to GDP growth, but also one of the factors behind stagnant per capita income and declining wealth. For example, according to growth accounting results, labor has accounted for more than half of all GDP growth in Belize. But with a population growth that exceeds 2.5% per annum, the country needs to grow faster in order for per capita income not to fall. As seen in Figure 31, unemployment has been high in Belize and migration is on the rise. In addition, unemployment is considerably higher for women and workers born in Belize (16% in 2012) as opposed to those born abroad (8% in 2012).²⁵ In the presence of a growing supply of labor (with participation rates in excess of 80% for male workers and above 50% for female workers) and positive economic growth, one would expect different labor

market outcomes, with lower levels of unemployment. This section presents a diagnostic of Belize's welfare and labor market indicators, and of the degree of labor content and backward linkages of Belize's exports, suggesting pathways that could boost shared prosperity in the country.

In view of the evidence of lackluster inclusiveness, this chapter investigates the extent to which labor market outcomes, the role of migration, the nature of unemployment, and the limited existence of backward-forward sectoral linkages play a part in the limited shared prosperity performance observed in Belize. We are interested in understanding, in particular, the extent to which endogenous factors such as labor market institutions, exemplified by high public sector wages that could, for example, lead to cueing in the public sector and contribute to a higher than expected unemployment rate.

24 Net migration is the net total of migrants during the period, that is, the total number of immigrants less the annual number of emigrants, including both citizens and noncitizens.

25 See Lindauer (2014) for an assessment of labor market institutions in Belize.

Figure 31: Belize: Unemployment and Net Migration

Source: Statistical Institute of Belize and WDI, World Bank.

Labor Market Outcomes Vary by Gender and Ethnicity

While the private sector is the largest employer in Belize, there is a lot of variation in occupations along gender and ethnic dimensions. More than half (54 percent) of the labor force worked in the private sector in 2014. This is substantially higher than the share of the economically active population working in the public sector (14%) or the self-employed (29%) and unpaid family workers (3%). While the differences in type of employment are not large, there is wide variation by ethnicity. For example, almost half of Mayans are self-employed which is very different from other groups. There is a lot of variation in occupational choice by gender and ethnicity. Most women (56 percent) worked as clerks, sales workers or in service occupations compared to only 24 percent of men with the same type of occupations in September 2014 (Figure 32, Panel A). Also, a larger proportion of women (22 percent) as compared to men (14 percent) worked as professionals. Furthermore, there are occupational differences by ethnicity with the Mayan minority working primarily as skilled agricultural workers, 45 percent of Creole working as clerks or sales workers, and 26 percent of the Garifuna working as managers, professionals or technicians—the highest proportion compared to other ethnicities (Figure 32, Panel B).

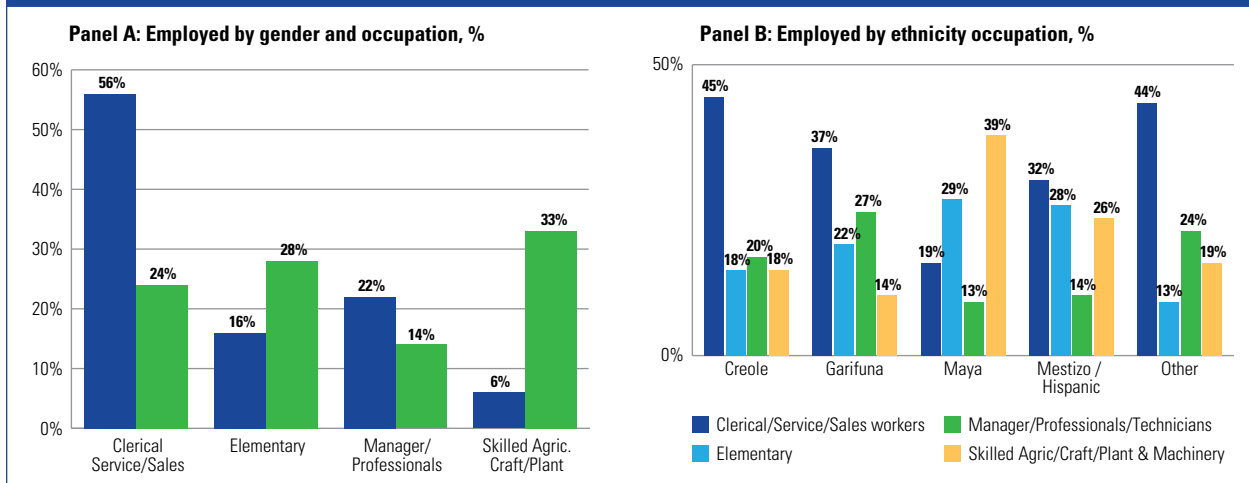
Migrants, representing a fifth of the labor force, appear to fill a gap in the labor market and occupy mostly low skill jobs. Migration in the Caribbean basin is

a common phenomenon. Belize is no exception—the country has been experiencing net inward migration since early 2000s. While 14.7 percent of Belizean population were foreign born, migrants represent approximately a fifth of the labor force. Migrants are coming to Belize mostly from Central America—40 percent of born abroad are from Guatemala, El Salvador and Honduras (Lindauer (2014)). Migrants tend to have a higher labor market participation rate (69%) than locals (65%), and the unemployment rate of foreign born was almost two times lower than that of locals—8.2 percent and 16.2 percent respectively in 2014. As in many other countries, migrants tend to fill a gap in the labor market by taking up the low skilled jobs that the better-educated locals do not want to—54 percent of employed migrants had below primary education compared to 42 percent of locals (Figure 33, Panel A).

Unemployment: Frictional and Structural

Belize suffers from a relatively high level of unemployment for a country that has been growing above the regional average. Females and youth aged 14 to 24 are particularly likely to face employment challenges; 62% of the unemployed population are female and 43% are youth. The variation in unemployment rates is highly seasonal, reflecting frictional layoffs associated with the business cycle and typically reaching its high during the low tourism

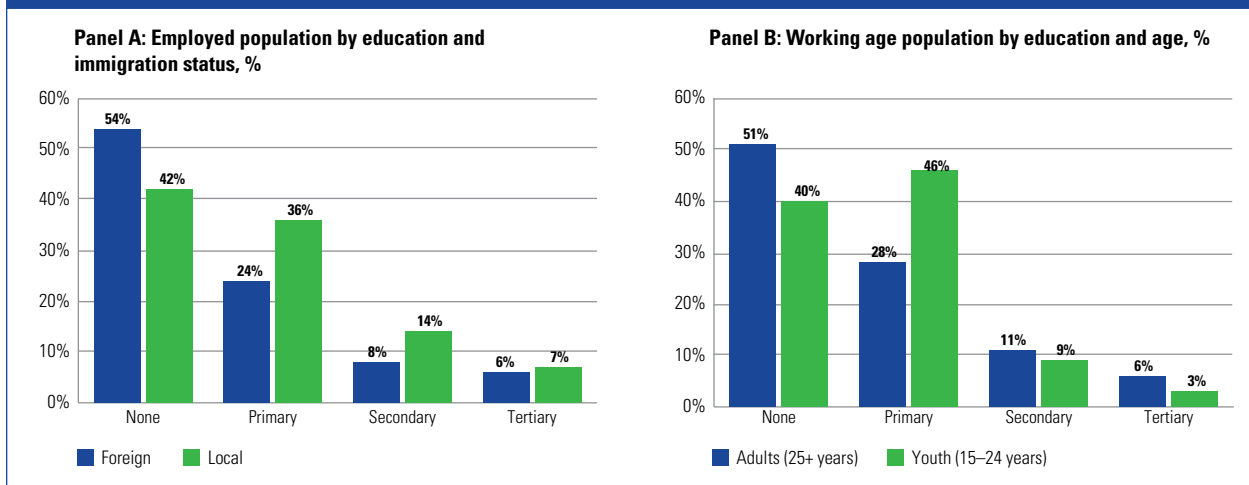
Figure 32: Occupational distribution by gender and ethnicity, %



Source: LFS, September 2014

Source: LFS, September 2014

Figure 33: Distribution of education by age and immigration status, %



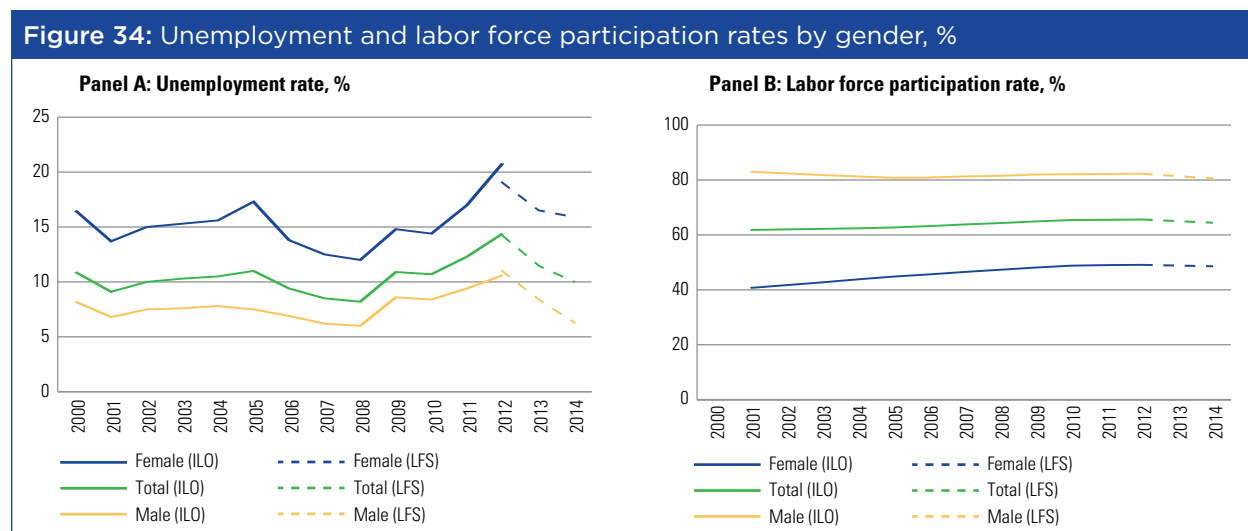
Source: LFS, September 2014

Source: LFS, September 2014

season (September) only to decline during peak tourism season (April). Since 2012 the unemployment rate has declined by 4 percentage points from 14.1 percent in 2012 to 9.9 percent in 2014 (Figure 34, Panel A). The unemployment rate in Belize is much higher than the average unemployment rate in other LAC countries (6.2 percent in 2013) or upper middle income countries (5.9 percent in 2013). Furthermore, the majority of the unemployed stay unemployed for more than half of the year, e.g. 37.5 percent were unemployed between 7-12 months and 28.9 percent were unemployed for more than one year in September 2014. The income growth

of the labor force has been extremely low: the nominal median monthly income per worker increased from BZ\$ 694 in 2003 to BZ\$ 886 in 2012. Between 2007 and 2012, median nominal earnings increased annually by 2.8 percent; real median earnings grew by a meager 0.9 percent per year (Lindauer (2014)). These trends suggest that declining economic growth had direct implications for labor demand which had been decreasing during 2002-2012 with some signs of recovery thereafter.

Structural factors, such as a higher participation rate for women and a rapid population growth, help



Source: WDI, LFS various years

Source: WDI, LFS various years

to explain why unemployment rates are high in Belize.

Since early 2000s, the population of Belize has increased by 40 percent from 238,600 in 2000 to 331,900 inhabitants in 2013 (World Bank (2014)). The working age population has been continuously increasing from 63 percent in 2002 to 67 percent in 2012 (Lindauer (2014)). While fertility rates have been declining—from 3.6 birth per woman in 2000 to 2.7 birth per women in 2013—they were much higher than in LAC overall—2.6 in 2000 and 2.2 in 2013—which has been contributing to population growth. Additionally, there was a slight increase in labor force participation from 62 in 2000 to 64 percent in 2014 (Figure 34, Panel B). The increase in labor force participation has been primarily driven by women whose participation rates increased from 39.7 percent in 2000 to 48.5 percent in 2014. While overall this is a positive trend, it has not been accompanied by the availability of economic opportunities in terms of jobs which have not been created fast enough to absorb new labor market entrants.

Are Workers Cueing for Jobs in the Public Sector?

Youth in Belize have better education outcomes than the rest of the population. Youth are somewhat more educated than the population at large; they are more than twice as likely to have completed primary education as other labor force participants (Naslund-Hadley et al. (2013)). As such, it is possible that they anticipate wage

returns for their higher levels of education, which go unrealized. Conversely, employers may see youth as unwilling to work due to their higher reservation wages, or may perceive their inexperience as an indication of their lack of skill.²⁶ Natives' reservation wages may reduce their labor force participation, thereby creating higher demand for migrant labor. While the low or non-existent wage returns on education may in part explain the discrepancy between natives' expected wages and market wages, other determinants—namely inflated public sector wages—may play a role in increasing reservation wages, as well. Public sector wage inflation does appear to be a notable fiscal issue (IMF (2014b)), and substantial evidence exists to suggest a non-negligible wage differential between the private and public sectors, though data limitations prevent quantification of that differential (see Lafuente (2013)). Available data, however, suggests that this wage differential may not be the main determinant of natives' unsupportable reservation wages.

26 The Inter-American Development Bank's case study of the Beltraide training program investigates the potential for more carefully calibrated skill signaling mechanisms to address the negative perceptions of employers. The Beltraide's Business Process Outsourcing (BPO) Training program illustrates the value of improving employability through signaling. After several weeks of training for English proficiency, computer skills, and basic customer services skills, all participants procured employment in call centers. As David Lindauer suggests, this outcome illustrates that employment outcomes may be the result of insufficient signaling as opposed to skills acquisition (Lindauer (2014), pp. 30-31).

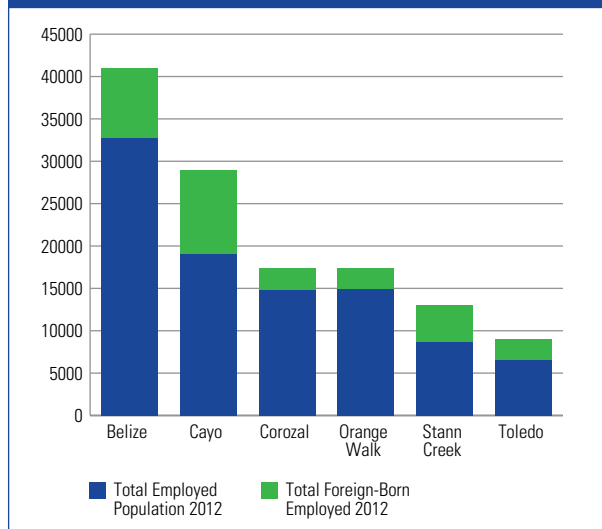
There is not enough evidence to support the hypothesis that public sector wage inflation's affect in any significant way natives' reservation wages. First, the public sector employs only 14% of Belize's labor force which makes it unlikely that the public sector plays an oversized role in determining natives' wage expectations. Second, access to Belize's public sector is reportedly transparent and merit-based; thus, it is unlikely that natives would delay entry into the private sector to await informal access to public sector employment. Third, positions in the Belizean public sector generally require higher levels of education than those in the private sector; thus higher public wages may be more linked to higher skill levels than wage inflation, per se. Data limitations preclude conclusive findings on the impact of public wages on natives' reservation wages and the resultant employment of foreigners. Nevertheless, given the evidence above, it is unlikely that public wage inflation is the main determinant of natives' reservation wages. In view of this, improving educational quality and private sector skill recognition mechanisms may prove to be more effective interventions for addressing the reservation wage gap.

Box 2: Knowledge Gap – Limited availability of labor force data to measure public-private wage differentials

Unfortunately, the available data from the Labor Force Surveys for the period 2012-2014 do not contain enough information to properly test the hypothesis of queuing in the labor market. First, the data does not contain income labels, which makes it impossible to check the wage differentials between private and public sector. Second, the LFS asks the unemployed about what is the place of employment that one would be interested in working if a job became available, however the data does not contain labels. This makes it impossible to study the self-reported job preferences of the unemployed. Third, one would require to have the start and the end date of unemployment, but the LFS only contains large bins of unemployment duration. Finally, ideally, one should have panel data to investigate employment histories but this is also not available in Belize.

Migrants Are Not to Blame

Figure 35: Employed Population by District and Foreign-Born Status, 2012



Source: Belize's Bureau of Statistics

Over the past fifteen years, immigration has contributed significantly to population growth and labor force growth. Belize is an emigrant sending country and, at the same time, one of the three main immigrant receiving countries when compared to its Central American neighbors. The country's geographical location enhances the arrival and entry of immigrants from neighboring countries by sea, land or air. It is attractive to immigrants from the region due to a stable economic situation, higher living standards and job availability. As of 2012,—the last year for which migration data is available—migrants comprised 20% of the working age population and 24% of the employed population. Guatemalans comprised over 10% of the labor force, while Salvadorans, Hondurans and Mexicans together accounted for another 6%. These migrants are not distributed equally across Belize; 60% are in the densely-populated districts of Cayo and Belize, and another 23% are in the sparsely-populated southern districts of Stann Creek and Toledo (Figure 35).²⁷

²⁷ Belize Labor Force Survey, April, 2012.

Belize also receives migrants from outside the continent who come to work on the entertainment industry and other businesses.

Extra-continental labor migrants are primarily temporary workers from India and Turkey employed in various casinos and business establishments within the Corozal Free Zone. In 2012, the majority (63.4%) were between the ages of 20- 39 years of age earning less than \$179.99 Belize dollars weekly. Females earn substantially less. Permanent labor migrants also come from the Central American northern triangle although the US also contributes to the workforce. China, India and Nigeria had the highest numbers of extra-continental

permanent labor migrants. There are no specific programs to recruit workers or regulate working conditions of migrant workers.

Migration to Belize is likely driven by a fairly even combination of push and pull factors.

Among the push factors are political instability, widespread gang-related violence and limited employment opportunities in prominent origin countries. Several pull factors likely attract migrants to Belize. First and foremost, increased stability and security facilitate more consistent employment in Belize. Second, Belize's proximity and relatively porous borders minimize transaction costs for aspiring migrants, especially from adjacent Guatemala. This pull factor manifests in an over-representation of migrants in the Belizean district bordering Guatemala. Third, poor land management institutions in Belize enable arriving migrants to install themselves on unclaimed land and engage in small-scale agricultural production or micro-enterprises. Fourth, Belize has a GDP per capita significantly higher than that of any major origin country, facilitating an improved standard of living for migrants. Belize also has a history of being an important transit country for migrants headed to the United States, which may have helped initiate migration flows. Though transit to the United States from Belize has become prohibitively difficult for undocumented migrants, potential wage differentials, increased security, and widespread opportunity have continued to attract migrants from neighboring countries.

Box 3: Knowledge Gap - The Effect of Remittances on Reservation Wages

Unemployment rates in Belize are high in view of its prosperous economy. It is also well known that a large proportion of all families in the country regularly receives remittances from relatives working abroad. Theoretically, this could actually contribute to keeping unemployment rates high as the receipt of remittances could, in principle, allow workers to significantly lengthen the waiting period prior to finding a suitable job. This search effect could easily then contribute to increasing the "natural" rate of unemployment. Traditionally in Belize, the Government needs to routinely approve work permits for foreign workers, particularly for agricultural activities, to respond to labor shortages. Demand for unskilled labor is greater in rural areas as opposed to Belize City which demands semi-skilled and skilled worker (see World Bank (1992)). Remittances from migrants can also ease the credit constraints faced by firms if used for investment thus contributing to increase the stock of capital in the country. If the investment effect is larger than the search income effect, then remittances would actually contribute to reducing the unemployment rate (see Drinkwater et al. (2006)). Although a plausible hypothesis, this has not yet been tested properly for Belize. The absence of panel data at the firm and household levels limits econometric assessments.

On the other hand, deteriorating economic conditions such as high levels of unemployment as well as lack of prospects for highly-educated workers are probably stimulating migratory movements of Belizeans towards the USA, Canada and the United Kingdom (UK).

In 2011, for example, the number of Belizeans residing in major US cities such as Los Angeles, New York, Chicago and Miami had reached well over 45,000 representing almost 15% of the estimated population of Belize (IOM (2013)). Although dated, the information available suggests that those who emigrate are usually among the most educated in the country. In the 2000 Census of Belize, 47% of Belizeans emigrants reported having a high school degree or higher. Data from the US Census Bureau's 2009 American Community Survey (ACS), the 2000 Census, and the Department of Homeland Security's Office of Immigration Statistics (OIS) reports as much as 87.1% of Belizeans adults age 25 and older who were residing

in the US had a high school education or higher. The fact that a relative high proportion of Belizeans emigrants possesses a higher level of education, may be indicative of a trend that many Belizeans who emigrate for study reasons decide to remain abroad after completing their studies instead of returning home. Belize has only had a national university since the year 2000; master degree programs, however, are not yet being offered. The findings highlighted the fact that the country was exporting its most valuable human resource. It is obvious that this brain drain affects the Belizean labor pool and can lead to a less robust social security system as well as possible future spikes in the need for immigrant workers.

The combination of substantial levels of labor migration and moderately high levels of unemployment has generated several questions about the effect of migration on Belize's development, particularly natives' employment. This section addresses three key queries about this relationship:

1. What role do migrants play in the Belizean economy?
2. What role do migrants play in natives' unemployment?
3. Could migration play any other role in Belize's economic development at this moment?

Migrants May Support Competitiveness in Low-Wage Sectors

For a small country with a limited stock of labor, migrant work can be a solution rather than a problem.

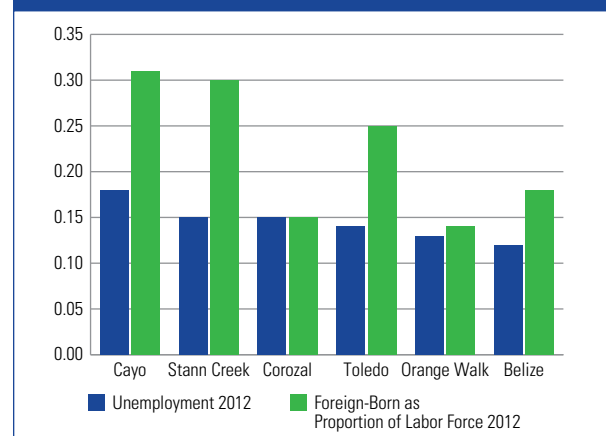
Data on employment by industry and workers' country of birth is unavailable, but anecdotal evidence suggests that Central American migrants' employment is concentrated in three areas: low-wage services in urban areas, self-employment, and agricultural production (primarily citrus cultivation and processing). Particularly in the districts of Cayo and Belize, migrants likely fill service positions that many Belizeans, particularly young Belizeans, are unwilling to fill. In the tourism and the citrus industries, the probable lower reservation wages of Central American workers may have sustained competitiveness, especially as these industries struggled to recover following Hurricane Dean in 2007. The citrus industry, in particular, faces stiff competition from much larger US and Brazilian producers, but is often the most significant element of Belize's agricultural sector. The ability of producers to rely on

foreign workers may provide this industry with a cushion against price shocks. More fieldwork would be necessary to confirm this hypothesis.

Natives' Unemployment Is Not A Direct Result of Migrant Employment

In the face of worrisome unemployment levels, particularly among Belizean youth, the conclusion that migrant employment is to blame is a tempting one. Evidence to fully support this conclusion, however, is relatively poor. The relationship between unemployment and employment of migrants by district is weak or non-existent (Figure 36). While the district with the highest proportion of migrants also has the highest level of unemployment, nearly half of all unemployed in this district were between the ages of 14-24. Given the suspected higher reservation wages of this cohort, it is just as likely that migrants flocked to this region in response to unfilled labor demand, particularly in the lowest-wage occupations. The higher than average level of self-employment (28%) in this district may reflect migrant micro-enterprises, so saturation of the private sector by migrants remains debatable. This argument is further bolstered by the lack of evidence that inflated wage differentials between public and private sector jobs raise the reservation wage of native Belizean youth, who could be holding out for a comfortable public sector career opportunity.

Figure 36: Proportion of Labor Force that was Unemployed and Proportion of Labor Force that was Foreign Born, by District



Source: Belize's Bureau of Statistics

While migrants may in some scenarios undercut native wage minimums, thereby contributing to native unemployment, insufficient job creation and non-existent skill premiums are much more serious drivers of unemployment. Between 2000 and 2012, the number of migrants in the labor force increased by around 13,500, or 70%. Over the same time period, the number of jobs increased by 76,500, or 107%.²⁸ This led to an overall decrease in natives' unemployment, but was still insufficient to provide jobs for the youth being rapidly added to the labor force. The need for increased job creation is linked to the need for a stronger continuum of jobs that recognize and value skill development. Extremely low returns to education reflect immature industries that cannot make use of workers' skills, as well as skill acquisition poorly-aligned with labor market needs. Addressing these challenges through stronger training mechanisms would fuel job creation while fostering labor market competition around skills rather than low wages. These structural labor market issues underpin Belize's unemployment challenges, which appear generally unrelated to migration.

Migrants Will Likely Continue To Fill Low-Skill Positions

Migrants are a complement to the local labor force rather than substitutes. Because they generally do not speak English and have low levels of educational attainment, migrants are probably not working in sectors that require significant skills. Except through long-term labor market participation, which may facilitate skill acquisition in select industries, migrants will probably not be able to acquire the select skills that would grant them access to the extremely small skilled labor market in Belize. Future migrants will probably feature similar skill profiles to those that have entered Belize over the past decade. More restrictive migration regulations that required higher skill levels, if enforceable, would probably result in a *de facto* ban on immigration; skilled workers do not seem to be trying to access the Belizean labor market.

Box 4: Potential Responses to Migration and Unemployment Phenomenon

Belize's potential policy responses to migration are limited by poor enforcement capacity on several fronts. If the government sought to restrict migrant employment in an effort to increase natives' employment, several institutions would need to be significantly strengthened. First, border control between Belize, Guatemala, and Mexico is notoriously lax, and difficult due to the terrain. Bolstering migration management capacity would require not only infrastructure investments in physical border control, but also senior-level decision-making around residence and citizenship regulations, which are currently fairly generous, when enforced.

It is not clear that reducing immigration flows to Belize is the right approach. What would be best is perhaps improving land management capacity which in its current form seems to encourage migrants (and natives) to settle unclaimed land for housing as well as small-scale agricultural use. With this incentive in place, migrants may still attempt to enter Belize despite increased policing, creating demand for illegal trafficking systems. Again, bolstering land management systems in Belize would require not only investments in infrastructure but also political will to enforce land regulations.

In addition, due to high levels of informality and self-employment, reducing migrants' participation in the labor force would be extremely difficult. Attempting to remove existing migrants from the labor force would threaten the businesses that rely upon them, especially the service and citrus industries which are important sources of foreign exchange. Diverting flows of incoming migrants may also adversely affect these industries, forcing them to turn to more expensive native labor that might pinch profit margins and lead to firm closure. More fieldwork would be necessary to determine the precise impact of any such ambitious and expensive measures, but it is unclear that the impact on native employment would be positive or significant.

²⁸ Belize Labor Force Survey, April, 2012.

Labor Content of Exports and Sector Linkages

Exports have been an important generator—and driver—of wage and employment growth in Belize since 2007. Indirect exports – that is, domestic inputs of exports – have been more important for wage growth than direct exports. In Belize the wages paid to directly produce exports have been increasing robustly since 2001. The LACEX data²⁹ shows that the labor value added (in nominal terms) directly contained in exports achieved an average annual growth rate of 5.6 percent between 2004 and 2011, reaching \$235.8 million. The growth in all the wages paid to produce exports once including those for the domestic inputs of exports has been more rapid. The total labor value added in exports achieved an average annual growth rate of 7.3 percent between 2004 and 2011, reaching \$370 million.

Trade and transport services is the sector with the highest labor content in exports, but maintains few backward linkages with domestic suppliers in the Belize economy. With \$94 million in 2011, trade and transport is by far the largest contributor to wages among export sectors (Figure 37), reflecting the large value of gross exports and a relatively high labor content in exports. This result is not surprising, given that this sector includes services directly related to tourism, including hotels and restaurants, and other auxiliary tourism services, including activities of travel agencies. What is surprising, however, is the share of the sector's labor content explained not by domestic backward linkages but by direct exports. For example, only around one tenth of the total labor contained in exports of trade and transport is due to labor used by domestic suppliers of this sector—primarily from other private services. This suggests little interconnectedness with domestic suppliers outside trade and transport services, and that growth in tourism does not necessarily pull other sectors of the economy along with it.

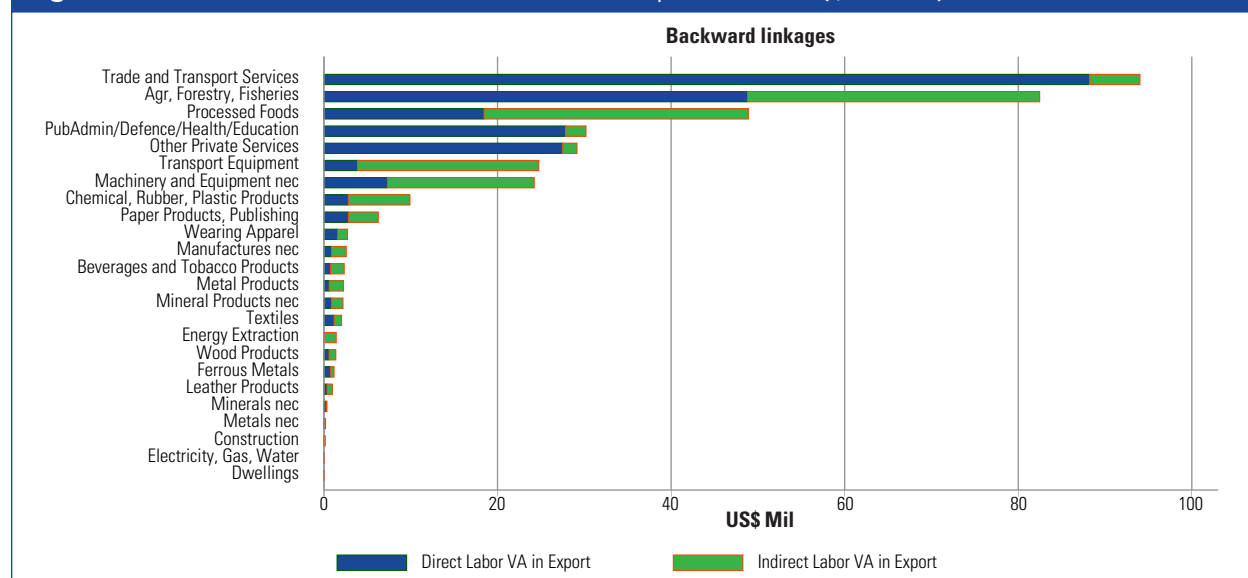
29 The LACEX dataset has been recently assembled to compute the (direct and indirect) value of the compensation of employees linked to exports for each sector/country/year (Cali et al. (2015)). The data has been computed on the basis of a panel of global input-output data spanning intermittent years from 1995 to 2011 from the Global Trade Analysis Project (GTAP). This represents a form of social accounting data - a variation on the social accounting matrix (SAM) where incomes are shown in the rows of the SAM while expenditures are shown in the columns (Hertel (2013), McDougal (2001)).

Agriculture, forestry and fisheries and processed foods instead have stronger backward linkages with domestic suppliers in other sectors of the economy.

Agriculture, forestry and fisheries and processed foods are also important sectors for generating labor compensation through their exports, with \$82 million and \$49 million in 2011, respectively. This is achieved both directly within the sector, and also indirectly from other sectors supplying inputs. Both agriculture, forestry and fisheries and processed foods rely heavily on trade and transport services (77 percent and 62 percent of domestically supplied inputs are of trade and transport services, respectively). Processed foods receives 27 percent of domestically supplied inputs from the agriculture, forestry and fisheries sector, while agriculture, forestry and fisheries receives 14 percent of domestically supplied inputs from other private services. Domestic linkages with other sectors, however, are nascent.

Non-agricultural based manufacturing – including transport equipment and machinery and equipment³⁰—generate labor compensation through their exports indirectly, with very little direct contribution. Looking at Belize's exports, in 2011 the country's main exports of machinery and equipment included manufacture of other special purpose machinery (ISIC rev. 3 code 2929) and manufacture of instruments and appliances for measuring, checking, testing, navigating and other purposes (ISIC rev. 3 code 3312). The analysis may be capturing re-exports of these products, where little transformation is happening between importation and exportation, explaining the low direct contribution. Similarly, however, it is labor in services sectors – in particular trade and transport and other private services – that benefit from expansion of non-agricultural based manufacturing exports. Nevertheless, the results suggests that even if manufacturing exports generate little direct domestic value added, it still generated labor-enhancing outcomes due to the backward linkages with services sectors, which are labor intensive and important for export.

30 Transport equipment includes manufacture of: motor vehicles, trailers and semi-trailers; and other transport equipment (ISIC rev. 3 codes 34 and 35). Machinery and equipment includes manufacture of: office, accounting and computing machinery; radio, television and communication equipment and apparatus; machinery and equipment nec; electrical machinery and apparatus nec; and medial, precision and optical instruments, watches and clocks (ISIC rev. 3 codes 29-33).

Figure 37: Direct and total labor value added in exports in 2011 (\$ million)

Source: Authors' elaboration on the Labor Content of Exports dataset

Although creating few backward linkages, trade and transport services is an important sector for producing inputs for other export sectors. Figure 38 shows the counterpart of Figure 37, or how much the labor in each sector is used by the other exporting sectors (i.e. the forward linkages). As is typical of many economies, labor in the services sectors are the most important contributor to exports once accounting for the forward linkages. Trade and transport services pay over \$160 million in wages, more than half of which is paid by supplying services to other export sectors. What is atypical of many economies, however, is the very low forward linkages that all other sectors generate in Belize, where labor is not employed to produce inputs for other exporting sectors. This suggests very limited downstream connectivity between sectors of Belize's economy.

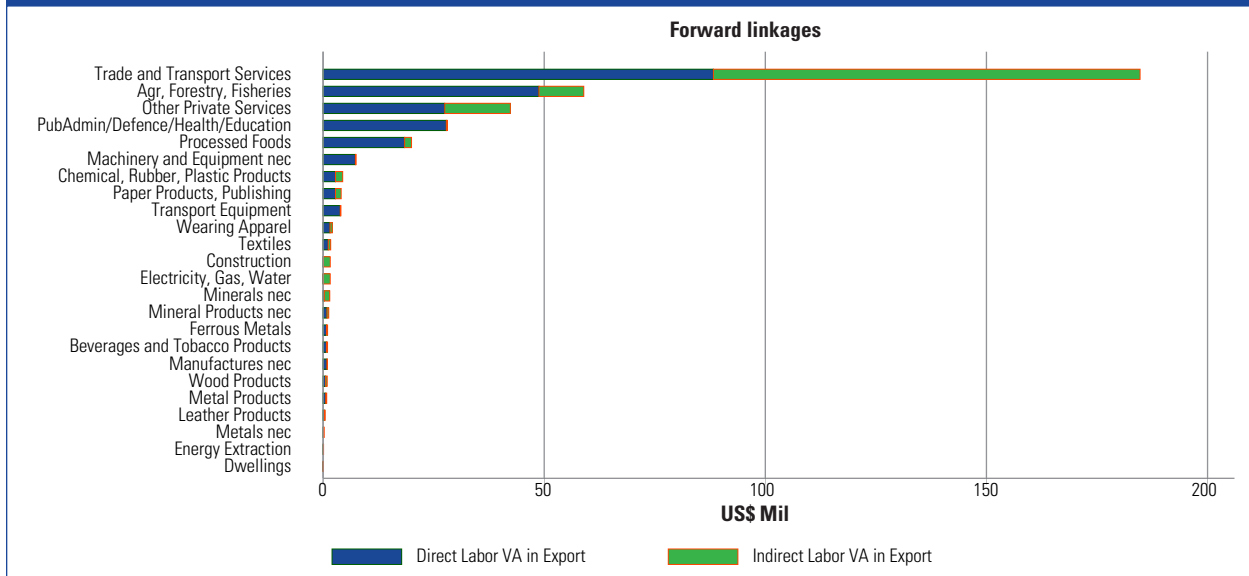
There are weak forward linkages of agriculture and processed foods with tourism activities. Inputs from agriculture, forestry and fisheries and processed foods represent less than 1 percent of trade and transport's total labor content of exports (or 10 percent and 8 percent of all labor value added inputs, respectively). Together with the low backward linkages of tourism, these results suggests room for policy to foment usage of domestically produced food as well as other sectors by tourism.

Export Growth Could Boost Shared Prosperity

Exports of trade and transport services are more labor intensive than other important export sectors for Belize, suggesting export growth in this sector or other sectors that use these inputs intensively would have positive income effects in favor of labor. Figure 39 shows how the labor intensity of Belize's gross exports varies across sectors as well as in comparison to other Central American economies. In general, Belize has an average share of labor in exports that is larger than its comparators, but there is substantial variation across sectors. For example each \$100 of trade and transport services exports generates \$43 of wages, of which \$40 go the workers directly producing these services. This is higher than in Costa Rica, Panama, El Salvador and Honduras. Agriculture, forestry and fisheries (\$33), processed foods (\$30), other private services (\$40), transport equipment (\$24), and machinery and equipment (\$33) all pay less to labor per \$100 of exports.

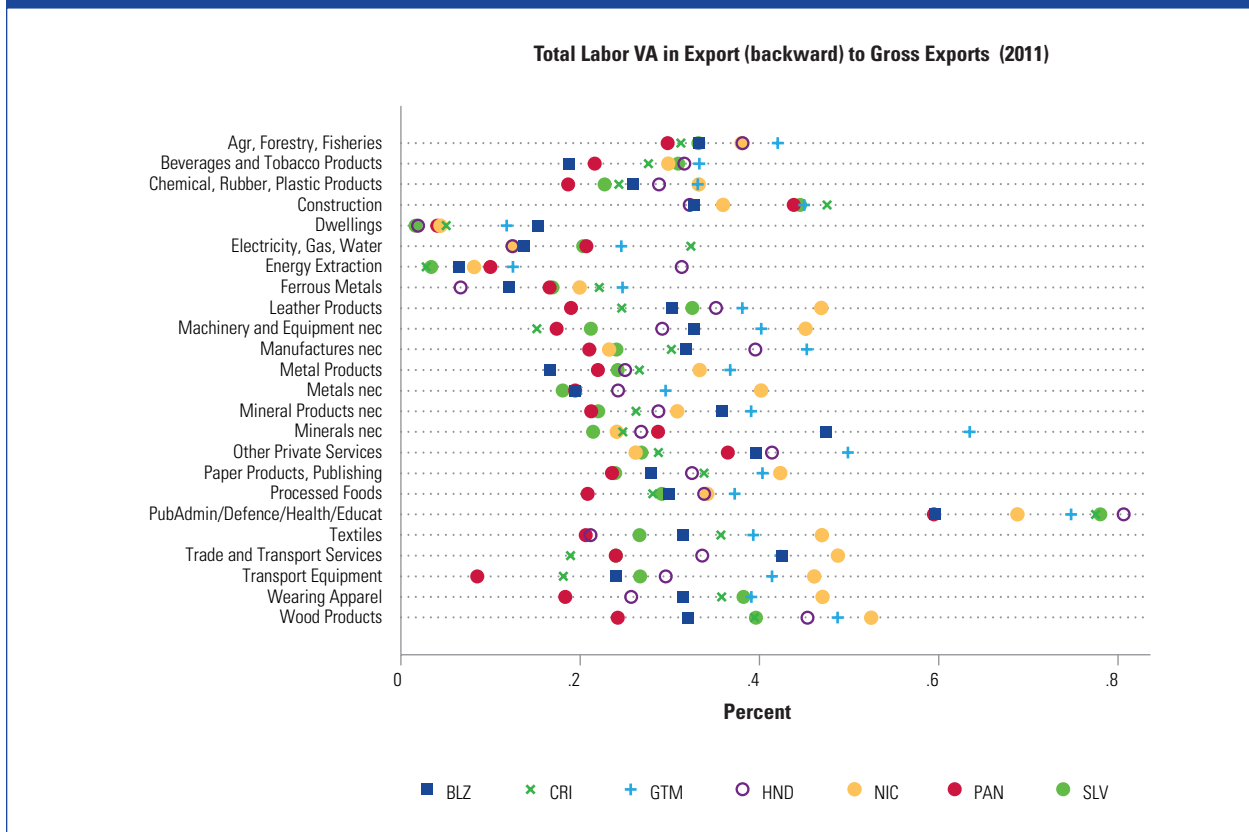
Relatively low wages for agricultural exporters, and low linkages of trade and transport services, may be symptoms of labor market distortions. Figure 40 explores how the labor intensity of five important export sectors has evolved between 2004 and 2011 and

Figure 38: Direct and total labor value added in exports in 2011, forward linkages (\$ million)



Source: Authors' elaboration on the Labor Content of Exports dataset

Figure 39: Total labor content in gross exports across sectors and countries



Source: Authors' elaboration on the Labor Content of Exports dataset

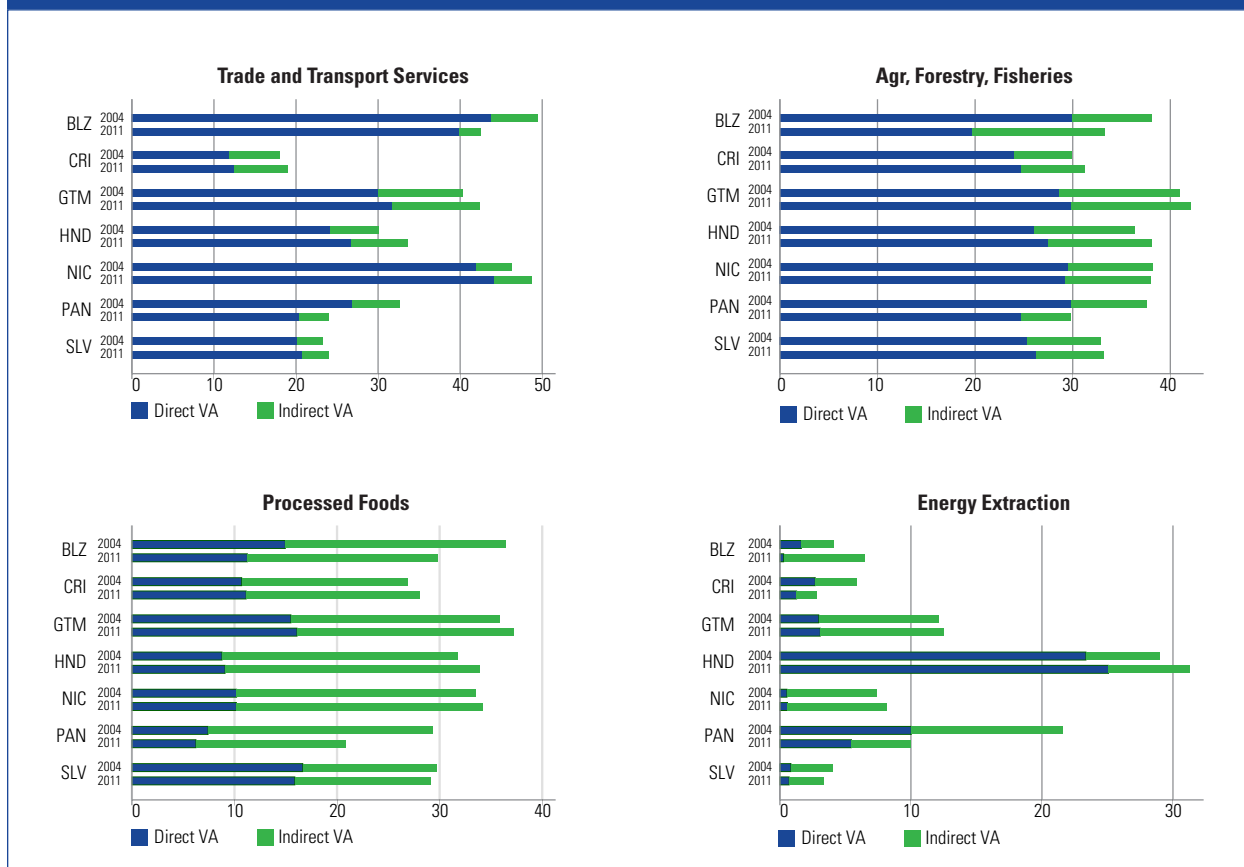
in comparison to other Central American economies: trade and transport services; agriculture, forestry and fisheries; processed foods; machinery and equipment; and energy extraction. A cross-country comparison of the direct and indirect labor intensity of exports can help pinpoint room for policy. The direct value added contribution of agriculture, forestry and fisheries, for example, pay much lower wages per \$100 of gross exports than in other Central American countries. At the same time, the labor content in agriculture, forestry and fisheries gross exports have also become relatively more reliant on input sectors in Belize. One explanation would be low and declining wages in the sector relatively to peer countries, suggesting possible distortions in Belize’s labor market (such as mismatches in the demand and supply of labor, or poor quality of labor skills) or that the sector is highly capital intensive. The low backward linkages of trade and transport services relative to peer countries suggests room to grow the

linkages with domestic suppliers, which may be prevented currently by a weak supporting industry. Not surprisingly, energy extraction provides little direct, backward or forward returns to labor overall and when compared to regional peers.

Like other Central American countries, Belize’s exports rely more heavily on unskilled than skilled labor, suggesting export growth could have redistributive income effects in favor of unskilled labor. Figure 41 splits the total labor content of exports for 2004 and 2011 into skilled and unskilled labor.³¹ The latter dominates in these countries to a larger extent than in the rest of the world, although Belize has a slightly higher share of skilled labor in exports than its comparators

31 We use 2007 as the split for 2011, which is not compatible with previous years.

Figure 40: Direct and indirect labor value added in each \$100 of exports (including backward linkages)

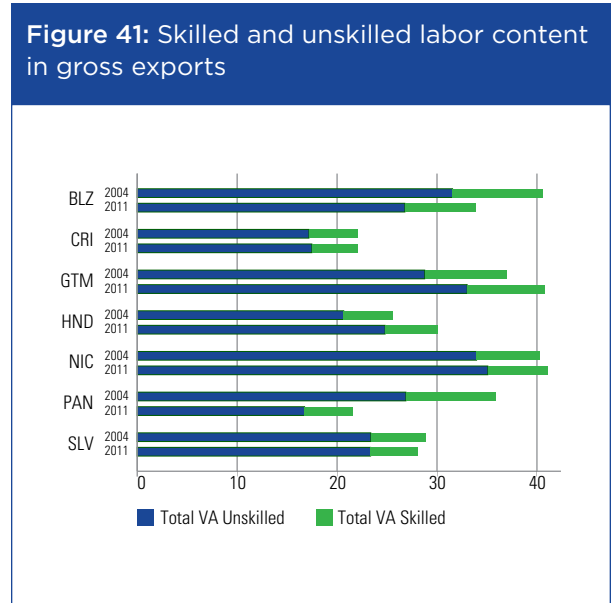


Source: Authors’ elaboration on the Labor Content of Exports dataset

with the exception of Panama. And similar to all comparators, the share of labor content of exports going to skilled versus unskilled workers has remained constant between 2004 and 2011: 22 percent versus 21 percent.

The reliance on unskilled labor is consistent across export sectors in Belize, with the exception of public services. While the unskilled component continues to

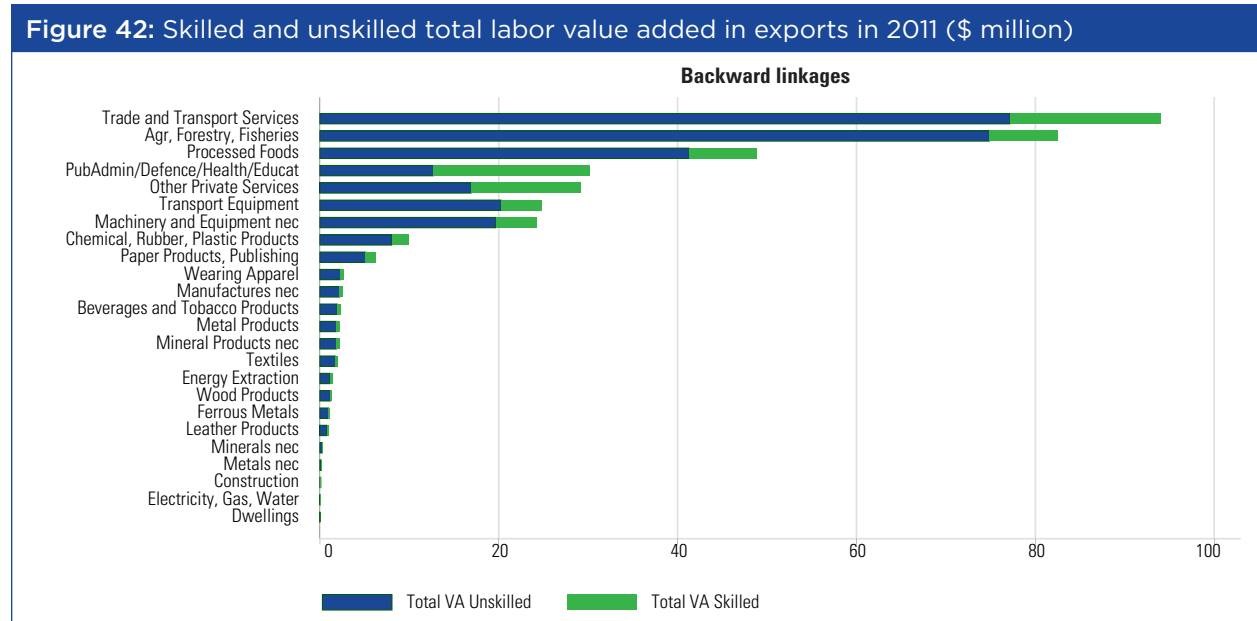
be larger in most sectors, there is some cross-sectoral variation (Figure 42). Most notably, public administration, health and defense use much more skilled labor than other sectors of the economy. This trend is true though to a lesser extent for other private services, but trade and transport services are also important employers of skilled labor in Belize. For these sectors, the split is even or almost even (either when considering total value added computed through the backward or forward linkages method), and is consistent with evidence from other countries in the world. At the other extreme, agriculture, forestry and fishing have the lowest shares of skilled labor contained in total exports, such that growing these exports may be important for achieving shared prosperity in the country.



Source: Authors' elaboration on the Labor Content of Exports dataset

Policy Areas to Boost Inclusion

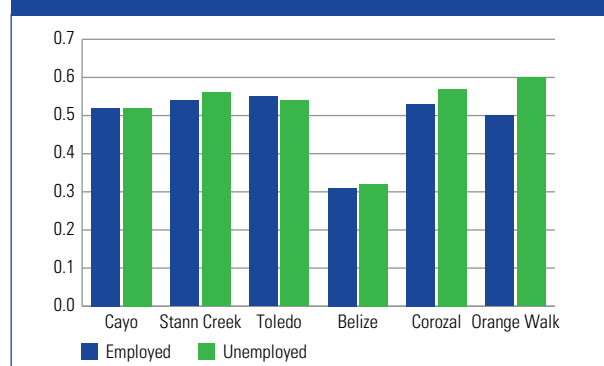
Significant skill deficits in the labor force represent an important constraint to greater inclusiveness in Belize. As discussed in other sections of this SCD, limitations in the quality of education and their implications on the skills profile of the workforce are worrisome. As a practical example, policymakers' efforts to transform the country's Anglophone population into a premiere call center workforce have heretofore been thwarted by the lack of engineering, IT



Source: Authors' elaboration on the Labor Content of Exports dataset

and customer skills in the labor force (Lindauer (2014)). While employers point to skill deficits as a barrier to growth, returns to education—in wages and chances of employment, generally—appear abysmally low. Unemployed and employed Belizeans were just as likely to not have completed any education (Figure 43). Our analysis shows that unemployment rates are particularly high for those with primary education (15.1 percent) and below primary (10.7 percent) as compared to those with tertiary education (5.0 percent) in September 2014. There is also evidence of positive returns to education only at the secondary level. Naslund-Hadley et al. (2013), for example, have found that the return to primary education (which over 80 percent of youth complete) was not significantly different from no education at all, and that the return to secondary education was only 3.2% compared to no education in 2009. Taken together, these results suggest that primary and secondary education are not producing skills valued by the labor market, as few jobs require and reward basic education. On the other hand, returns to vocational education were 11.3% and returns to university education were 14.6%, suggesting that the demand for high skilled workers and workers with job specific skills was high. Focus group discussions with employers show that the education system is not producing graduates with either basic or practical or business related skills. Additionally, work ethic and honesty present a challenge, especially for potential growth industries such as call centers, indicating that socio-emotional skills are also not being sufficiently built in school (Lindauer (2014)). Investing in education and vocational training can have quick and lasting effects on the employability of the local population and contribute to increase inclusiveness in Belize.

Figure 43: Proportion of Employed and Unemployed with No Education Attainment, by District



Source: Belize Statistical Bureau

Policies that succeed in improving educational outcomes and create training opportunities in technical skills could also be optimal in addressing concerns on the migration front. Rather than investing in developing sophisticated migration systems, Belize may benefit more from the development of vocational training programs calibrated to meet the needs of the domestic labor market. If these training programs increase the wage premium for skills in the private sector and effectively signal workers' skills to employers, they may lead to increases in native employment such that migrants serve as complements rather than substitutes to natives in the labor market. Regardless of the speed of this potential transition, investments in skill development and private sector growth would appear to be more effective policy responses to unemployment than a more rigorous, unenforceable migration policy.

Belize needs a migration management strategy which can inform the development of a comprehensive national migration policy. According to the CIA and the IOM, more recently, Belize has become a transit point for drugs, arms, victims of human trafficking, traffickers in persons, smugglers, criminals and organized crime. This represents major challenges for national authorities who must respond to these activities within a context where material resources and technical capacities (software, equipment, technology and appropriate facilities) are limited. There is difficulty in establishing a coordinated response to administer the existing immigrant stock, and deal with the increasing temporary, permanent, regular and irregular migration. Additionally, the lack of adequate migration policies (strategy and planning) constrains the proper management of migration. Belize will continue to be a migrant sending and migrant receiving country and as a result of its strategic location it will continue to experience mixed flows. Therefore, it is important that while establishing a migration policy to deal with the sustained flows it must also consider that the immigrant stock in Belize is mature and well integrated. This means that the best move towards managing Belizean migration in Belize must be done from a holistic position.

There is a clear role for policy in ensuring the competitiveness of Belize's services sector. A competitive domestic services sector is necessary for competitiveness of manufacturing and agricultural

exports. This is exemplified by the importance of services—in particular trade and transport services and other private services—as labor inputs for sectors such as agriculture, forestry and fishers, processed foods, and machinery and equipment. This is particularly relevant for global-value-chain-oriented sectors that may import foreign inputs and rely heavily on labor and services as domestic inputs. The government should look to reduce regulatory policies that act as barriers to services provision, both domestically and by international services suppliers.

Finally, the government should seek policies to enhance the backward linkages between tourism and other sectors including agriculture and processed foods. The low backward linkages of trade and transport services relative to peer countries suggests room to grow the linkages with domestic suppliers, which may be prevented currently by a weak supporting industry. This includes policies to strengthen the linkages with sectors including agricultural or processed food inputs, growth of which would simultaneously support shared prosperity. Caution is warranted, however, not to put in place policies that act as anti-import biases, which would raise agricultural prices in Belize and harm poorer populations outside the agricultural sector.



SUSTAINABILITY CHALLENGES

The sustainability of growth and the ability to boost shared prosperity in Belize could be affected by policy choices and inadequate exploration of natural riches.

For a small and sparsely populated country that relies so much on its natural beauty as an engine of growth, it is hard to disentangle the effects of policies that could affect separately economic, environmental and social sustainability. Without carefully weighing the costs and benefits of any given growth enhancing investment opportunity, one could at the same time affect social and environmental sustainability, as illustrated by the current debate on offshore oil drilling in Belize. With that caveat in mind, the main factors that could pose sustainability challenges to growth, the environmental and inclusiveness are reviewed next.

Factors that May Affect the Sustainability of Growth

Growth in Belize can be susceptible to the path of debt, exogenous shocks that could heighten volatility, and the depletion of resources available for investments. Recent decisions to nationalize utility companies that had been privatized in the past could limit future growth prospects via an increase in the size

of public debt that could become unsustainable. At the same time, exposure to terms of trade shocks could affect growth performance through an increase in output volatility, whereas the incidence of high-impact natural disasters and the depletion of natural resources could affect net savings negatively and have a deleterious effect on growth.

Nationalizations and Debt

Policy decisions taken in 2009 and 2011 to nationalize the telecommunications and electricity companies have not yet been compensated and could have an impact on the sustainability of debt and growth in Belize. Background analysis for this SCD has assessed the possible impacts of compensation payments for the nationalized companies and the possible implications of this on growth and debt sustainability. This analysis starts with the development of a baseline for the main macroeconomic aggregates of the Belizean economy over the next 15 years that was then used to compare the impacts of different options for compensation payments and their financing. In the baseline scenario, medium-term economic growth is estimated at 2.5 percent per year (see Table 7). A primary government surplus of 1-1.2 percent of GDP

would allow the public debt-to-GDP ratio to fall slowly from 75 percent of GDP in 2015 to 70 percent in 2028. Growth in non-oil exports would compensate for the fall in oil exports due to lower prices from 2015 onwards and diminishing production from aging wells. However, import growth is likely to exceed export growth resulting in an expanding current account deficit and increasing foreign borrowing by the private sector. FDI is projected

to grow more slowly than Belizean GDP. Belize's fixed exchange rate would lead to convergence with US inflation (see Table 7). This baseline scenario provides a neutral backdrop to discuss debt sustainability implications of compensation payments. By design, it shows the economy in a low-equilibrium growth path, in which most of the macroeconomic aggregates remain stable, including the fiscal and current account balance.

Table 7: Macroeconomic Trends and Projections (in percent of GDP unless otherwise specified)

	2013	2014	2015	2016	2017	2018–22	2023–28
	ACTUAL			PROJECTIONS			
NATIONAL INCOME AND PRICES							
Real GDP (percent change)	0.7	2.0	2.5	2.5	2.5	2.5	2.5
Consumer price index (percent change)	2.1	1.0	-4.5	1.2	1.4	1.5	1.7
INVESTMENT AND SAVING							
Consumption	81.3	77.2	77.1	77.1	77.3	77.5	78.0
Investment	21.7	25.4	25.3	25.4	25.5	25.6	25.9
National savings	18.9	22.4	22.5	22.5	22.4	22.8	23.1
Domestic savings	18.7	22.8	22.9	22.9	22.7	22.5	22.0
Resource balance	-4.7	-4.3	-4.1	-4.2	-4.4	-4.9	-5.6
GOVERNMENT OPERATIONS							
Revenue and grants	27.7	28.3	27.7	27.6	27.6	27.5	27.6
Expenditures	29.8	29.9	29.2	29.1	29.1	28.6	28.2
Current expenditures	23.8	24.9	24.8	24.6	24.6	24.1	23.6
Of which: interest payments	3.1	2.6	2.6	2.6	2.6	2.2	1.9
Capital expenditures	6.0	5.0	4.4	4.5	4.5	4.5	4.6
Overall balance	-2.1	-1.6	-1.5	-1.5	-1.5	-1.1	-0.6
Primary balance	0.9	1.1	1.1	1.1	1.1	1.2	1.3
EXTERNAL SECTOR							
Exports of goods and services	63.9	62.7	60.5	60.4	60.1	59.4	57.5
Imports of goods and services	68.6	67.0	64.6	64.6	64.5	64.3	63.1
Net remittances	6.7	6.6	6.5	6.4	6.3	6.0	5.9
Current account	-4.4	-4.7	-4.5	-4.6	-4.7	-4.5	-4.5
Foreign direct investments, net	5.0	4.9	4.8	4.6	4.5	4.1	3.4
Gross international reserves (in monthly)	3.0	3.0	2.9	2.9	2.9	2.9	2.9
Government debt	76.5	75.7	74.3	72.8	71.4	66.4	56.6
Domestic	11.4	12.2	12.9	9.1	5.1	-6.6	-15.2
Foreign	65.2	63.6	61.4	63.7	66.3	73.0	71.8

Source: Belizean authorities and Bank staff projections.

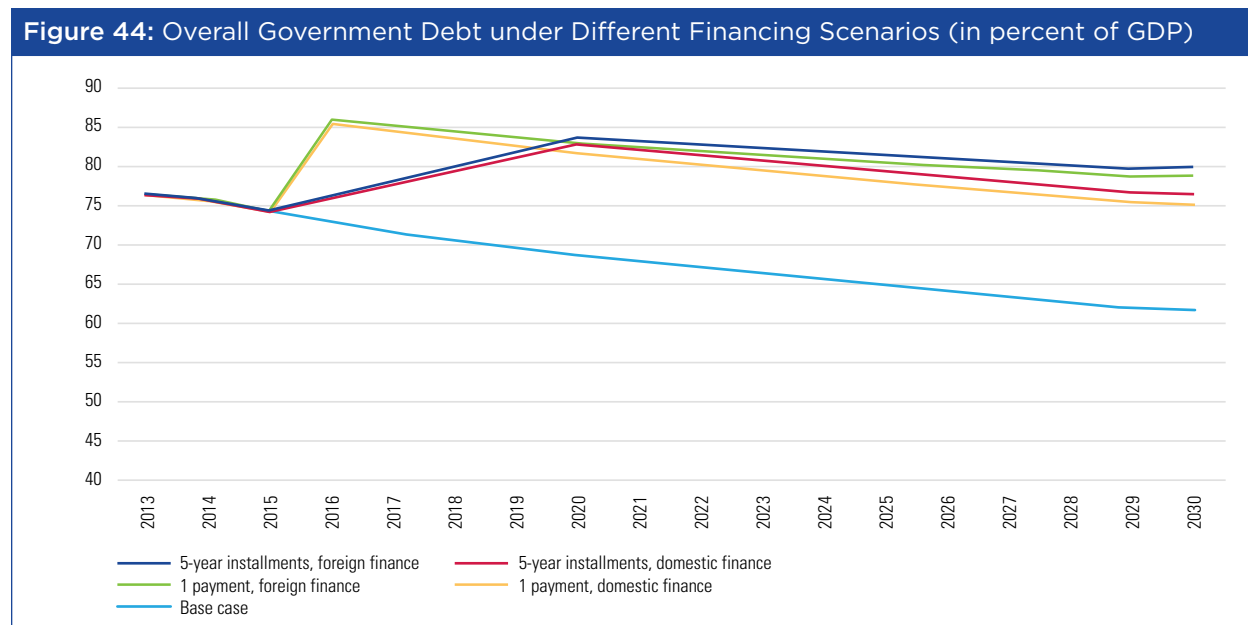
Possible scenarios for compensation payments and their financing suggest that Belize could face a high risk of debt distress.

Taking the mid-point of the competing claims for simplicity, the Belizean government may have to pay the former owners about US\$182 million, plus accrued interest for the period between nationalization and the payment of compensations. For presentational purposes, we assume that the liability for the compensations is reflected in the balance sheets of the two companies since nationalization occurred, rather than in the government's balance sheet. This means government debt will be affected only when the government makes payments to the former owners. These payments are treated as transfers to the companies, which then transfer the money abroad to the former owners in the form of equity outflow. To present the effect of the compensation payments more clearly, we treat them as completely additional: interest payments are capitalized, i.e. the Belizean government borrows every year additional funds to pay for interest on new debt,

while principal payments are rolled over when they come due.

The scenarios highlight the great challenge facing Belize should the courts decide on compensation payments similar to those simulated here.

The scenarios have in common a precariously slow debt reduction profile with a high risk of debt distress (Figure 44). Sensitivity analysis suggest that a real interest rate of more than 6.5 percent on foreign debt, or GDP growth of less than 2 percent per year would lead to an unsustainable debt spiral. Domestic financing of the compensations does not provide the foreign exchange needed to transfer payments to the former owners, and a draw-down of reserves would leave the central bank dangerously exposed to shocks and speculative attacks. Contractionary fiscal policy leading to a higher primary surplus could contribute to a faster reduction in debt burden, as long as GDP growth could be maintained at 2.5 percent. Policies to spur faster growth would also reduce the debt burden.



Source: The central scenarios are developed using a real interest rate of 4.5 percent for external debt, and 3 percent for domestic debt. For simplicity, we assume that interest accrued for 4 years after the nationalizations before compensation payments are made at the (nominal) external debt interest rate of 6 percent. Interest amounts to US\$48 million, for a total of US\$230 million or 14 percent of 2014 GDP in compensation payments. The scenarios are the following: **Scenario 1: Foreign-financed instalments.** The government of Belize pays compensations with a net present value of US\$230 million in equal yearly instalments of US\$54 million over a period of five years starting in 2016. The outstanding debt continues to accrue interest at 6 percent per year. **Scenario 2: Domestically financed instalments.** Same as above, but the government issues domestic debt to fund compensations. Conversion of compensations into foreign currency for transfer abroad reduces central bank reserves. **Scenario 3: Foreign-financed one-off payment.** The government of Belize pays compensations in one payment in 2016 with external commercial financing; one-time transfers to the former owners are made by the companies. **Scenario 4: Domestically financed one-off payment.** Same as above but payments are made with domestic financing and reserve draw-down.

Source: Bank staff estimates.

The use of funds already set aside for the compensation and proceeds from re-privatization of a majority ownership share could also be feasible options. Dividend payments on the remaining government share would contribute to debt service payments. In this scenario, the government would need a foreign-exchange bridge loan to avoid a risky depletion of central bank reserves: the US\$90 million set aside for compensation payments are in Belizean dollars and would have to be converted into foreign exchange by the central bank, and the sales proceeds may materialize with some delay after compensations have been paid. For illustrative purposes, we have simulated such a scenario as well. We assume a bridge loan covers the entire compensation payments made over 5 years starting in 2016. The loan carries a real interest rate of 4.5%. The government sells a majority stake in the companies for US\$50 million in 2021, which it uses to retire outstanding debt. In this more realistic scenario, the government would use the US\$90 million set aside for compensation payments to retire domestic debt, while paying the actual compensations out of new foreign debt. Overall government debt would increase to 78% of GDP in 2020. Sales proceeds from re-privatization would reduce this ratio to 75% in 2021, followed by a gradual reduction to 71.5% in 2028. If the companies could generate foreign exchange dividends, they could contribute to a faster decline in the debt-to-GDP ratio.

Above and beyond these illustrative scenarios, what is certain is that Belize will need to undergo a process of fiscal consolidation to create buffers to pay these compensations. The country has stopped generating the fiscal surpluses that it used to enjoy a few years back and is now expected to move into deficit territory over the medium term. There are growing pressures on the expenditure side with a major boost to the wage bill coming from recent wage agreements that should raise the cost of salaries paid to public servants from 11 to 15% of GDP. Growth is expected to pick up and reach close to 3% this year and the next boosted by a new sugar plant, but should return to the normal trend of 2% after 2016 in the absence of new major investment projects. Given that the debt-to-GDP ratio is expected to increase as the result of the nationalizations, one should expect higher debt service payments in the future. Depending on the terms of the compensations, as discussed above, some upfront cash payments of principal debt will need to be made in the short term and these could be significant. To avoid a sharp drop in

international reserves, the authorities will need to consider some fiscal tightening to start building fiscal buffers that would allow them to pay the compensations.

High Output Volatility

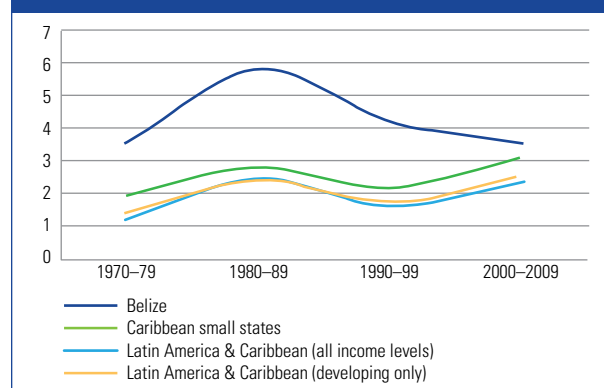
The high volatility of growth in Belize could also have a negative effect on the growth trajectory and shared prosperity. Work by Ramey and Ramey (1995), Loayza and Hnatkovska (2005) and Breen and Garcia-Penalosa (2005) shows that the link between volatility and growth, to a large extent, is driven by the level of economic development with the negative effects of volatility being more pronounced in low-income countries. Gavin and Hausmann (1996) have shown that Latin American economies are both much more volatile and much more unequal than industrial economies, and that in fact volatility of the level of GDP is positively correlated with inequality. Standard measures of output volatility rank Belize as one of the most volatile countries in the world. Output volatility, as measured by the standard deviation of real GDP growth, has been high and fairly persistent in Belize. With an average of 4.3% per decade, the standard deviation of growth in Belize has been among the highest in the region since the 1970s (see Table 8). Although some peer countries in LAC have experienced similar average standard deviations in the last four decades, much of this performance results from a rapidly declining trend in volatility of growth from high values in the 70s (e.g. the Bahamas, Chile, Dominica, Jamaica, Nicaragua, inter alia). Conversely, Belize's standard deviation of growth has remained high throughout, illustrating the persistent nature of volatility of growth in the country (Figure 45). Relative to other middle income countries, the standard deviation of Belize's annual growth has been more than double the average standard deviation of these countries (Figure 46).

Much of the volatility in growth has been attributed to poor fiscal discipline, susceptibility to natural disasters, terms of trade shocks³² and relatively weak institutions. Using a variance decomposition exercise aimed at identifying which major sector of the economy contributes the most to the country's growth

³² Easterly and Kraay (2000) showed that small states do have greater volatility of annual growth rates, which is in part due to their greater volatility of terms of trade shocks.

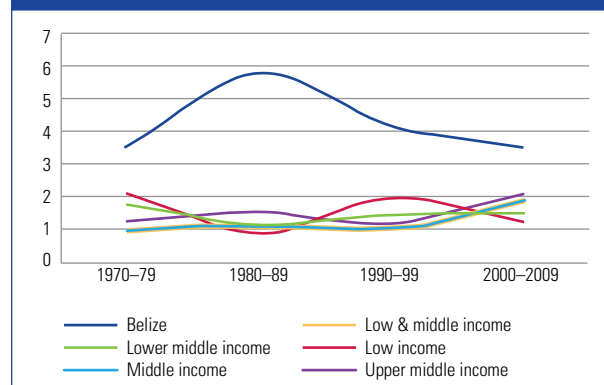
volatility, Longmore et al. (2015) have shown that some 50 percent of that volatility can be attributed to covariate terms between the tertiary sector and agriculture, industry, and taxes. In fact, the primary and secondary sectors of the economy account for only 2.4% and 3.3% of the variance in GDP growth, respectively. Although the difference between each sector's contributions to GDP variance is large, it come as little surprise given that Belize's service sector has become the largest contributor to GDP. Within the tertiary sector of the economy, financial services emerged as one of the main drivers, accounting for nearly 10% of volatility. The second and third highest contributions comes from transportation/communications and wholesale services at a level of 4.7% and 4.3%, respectively.

Figure 45: Standard deviation of output growth: Belize vs. LAC Caribbean Small States 1970-2009



Source: World Bank staff and World Bank WDI.

Figure 46: Standard deviation of output growth: Belize vs. Low and Middle Income countries 1970-2009



Source: World Bank staff estimates and World Bank WDI.

On the expenditure side, volatility of growth in Belize is mostly attributed to exports, which account for 43.8% of total output volatility.

The second largest contributor is private consumption, accounting for 37.3 percent, followed by imports at 17.6 percent, investment at 2.6 percent, and public consumption at 2.3 percent. A positive shock to trading partner's GDP results in higher growth and the accumulated impact seems to be pronounced and permanent. Given the structure of the economy this effect is likely to take place through the external sector channel, in particular through increased tourism demand as well higher merchandise exports—both of which have the potential to raise the level of domestic demand. Consistent with the work of Judson and Orphanides (1999), the analysis in Longmore et al. (2015) also finds that a positive domestic price shock leads to a decline in output. As the price of goods increase in the economy, consumers quickly switch to cheaper imports either from neighboring Mexico or the USA. With a fixed exchange rate regime, shock to prices follows a long memory process which suggests that the falloff in output will have some amount of permanence as the economy loses external competitiveness. There does appear to be some amount of procyclicality where a positive shock to government expenditure leads to a short-lived spike in output.

Overall, the results suggest that higher output volatility is less desirable than lower output volatility to maintain a high growth trajectory.

When the economy is experiencing extreme bouts of volatility, trading partners' GDP loses some of its ability to influence domestic activities. This is further compounded by the negative effects of inflation, which tends to become more pronounced during these episodes. These results have a number of policy implications. First, a strong track record of macroeconomic stability will be crucial for raising and sustaining the level of economic growth in Belize. With domestic stability assured, the country has a better chance of reaping the benefits of positive shocks originating from its major trading partners. While the economy is currently on the path to recovery from the recent global financial crisis, the external and internal deficits will continue to put pressure on macroeconomic conditions, suggesting that additional measures to accelerate the pace of reform will be necessary to prevent a long-term fall in standards of living. Second, with the impact of trading partner's GDP weakening during periods of intense volatility, the authorities will have to invest in developing countercyclical measures

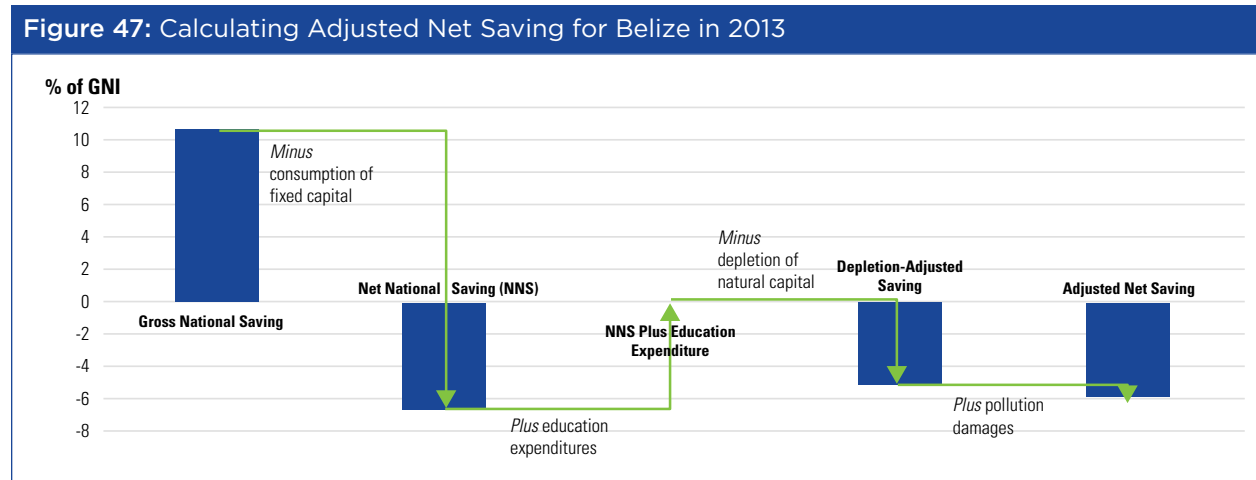
to minimize the duration of bouts of volatility. Further, fiscal policy, as practiced in the past is not a good option given the limited impact on boosting output. Finally, the benefits to be derived from reducing the level of economic volatility in Belize is quite significant potentially leading to a higher level of growth.

Depletion of Resources Available for Investments

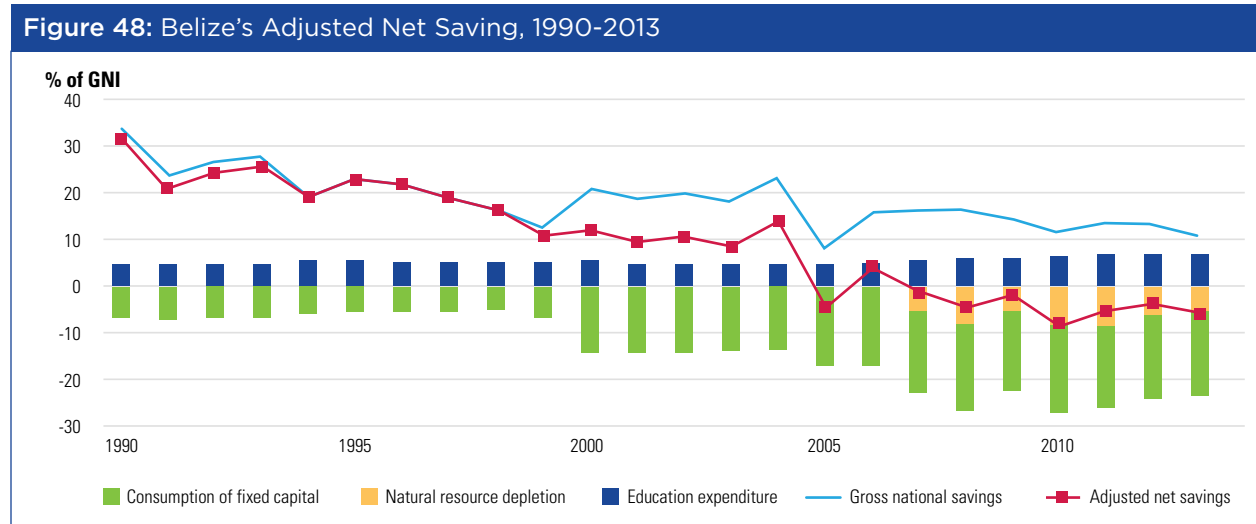
An assessment of Belize’s Adjusted Net Savings shows that the country is currently facing a significant depletion of its assets and consequently a gradual decline in the total resources available for investment. Figure 47 shows the calculation of ANS for Belize in 2013, where gross national saving is 10.5 percent of GNI. After adjusting for the consumption of

fixed capital (minus 17.5 percent), education expenditures (plus 6.5 percent), depletion of natural resources (minus 5 percent), and pollution damages³³ (minus 0.5 percent), Belize’s adjusted net saving is about -6 percent of GNI. Belize’s savings trend over the past two decades is shown in Figure 46, where the line graphs compares the country’s gross national saving to its adjusted net saving from 1990 to 2013. Looking first at the trend in GNS, Belize’s total resources available for investment have been gradually decreasing through these years, stabilizing around 13 percent over the past five years. Though ANS generally tracked the movement of GNS, it has dropped below or near zero since 2005.

³³ Pollution damages include carbon emissions and exposure to particulate matter (PM2.5). Due to missing data for 2013, the 2013 estimate for air pollution damages from PM2.5 is gap-filled using Belize’s 2010 estimate.



Source: World Development Indicators 2015, World Bank



Source: World Development Indicators 2015

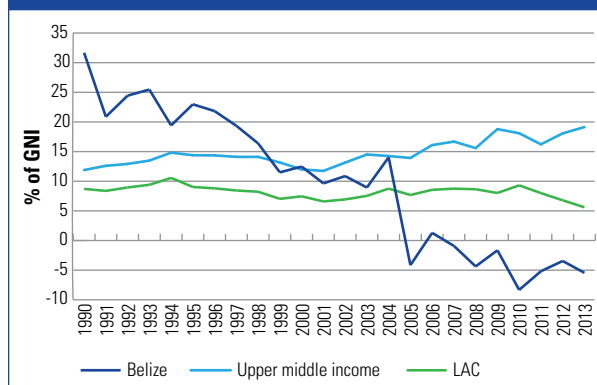
Note: This ANS series excludes damages from PM2.5, as estimates are only available for three data points and not the entire time series.

This recent prolonged period of negative ANS suggests that Belize is not saving enough (both in gross national savings and in the formation of human capital) to offset the depletion of its assets – mainly the depreciation of physical capital and the depletion of its natural resources.

While there have been positive expenditures in education throughout the period, the consumption of fixed capital and natural resource depletion have become an important factor in explaining the negative net savings after the year 2000. The bar graphs of Figure 48 further illuminate the underlying factors behind the ANS estimates over this time period, where the positive expenditures in education add to saving, and the consumption of fixed capital, natural resource depletion, and pollution damage reduce saving. From 1990 to 2000, ANS almost equaled gross national saving because the consumption of fixed capital was mostly offset by education expenditure (i.e., investment in human capital). However the picture changes after year 2000, with a rise in the consumption of fixed capital as well natural resource depletion becoming a more prominent component in the late 2000s. For Belize, depletion of natural resources basically comprises the depletion of energy resources (i.e., oil). These factors, in addition to a low gross saving rate, pushed ANS negative in the most recent years despite relatively high levels of education expenditures (around 6 percent of GNI).

Belize does not seem to be saving enough to offset the depreciation and depletion of its assets. Figure 49 compares savings trends of Belize to its regional and income group from 1990 to 2013. The average for Latin America and the Caribbean was steady around 8 percent of GNI during this period, though dropping slightly in recent years. The average for upper middle income countries has been slowly rising during this time, from 12 percent in 1990 to 19 percent in 2013. As a sharp contrast to these aggregate trends, Belize's ANS was much higher in the 1990s but drastically dropped lower and negative over the past 10 years. This recent trend serves as a warning signal to Belize's economy that it is not saving enough each year to offset the depreciation and depletion of its assets.

Figure 49: Adjusted Net Saving: Belize, Latin America & Caribbean, Upper middle income



Source: World Development Indicators 2015, World Bank

Factors that May Affect Environmental Sustainability

Environmental sustainability in Belize involves enhancing resilience against climate change and natural hazards, improving the quality of infrastructure, and adopting wise policy choices. As in many other Caribbean nations, the impacts of climate change can be severe to Belize's natural resources. In addition, the exposure to natural hazards can affect not only natural riches but also destroy and damage weak infrastructure. In addition, there are non-negligible risks associated with offshore oil drilling that could have catastrophic effects on Belize's ecosystems with negative spillovers on tourism and fisheries, two important engines of growth.

Vulnerability to Climate Change and Natural Disasters

The largest Barrier Reef in the occident, the greatest water availability per capita in Latin America, and the presence of vast tropical forests covering more than half of its territory illustrate Belize's natural resource wealth and biodiversity. Relying on these characteristics, Belize has developed an export economy centered on tourism and natural resources (from petroleum to marine products). In that context, a substantial part of the population depends heavily on fisheries and traditional agriculture. Environmental governance in Belize is based on a wide range of national legislation, multilateral environmental agreements, and

Box 5: The World Bank’s Adjustment Net Savings Indicator

First appearing in the 1999 edition of the *World Development Indicators*, the World Bank’s adjusted net savings (ANS) indicator was created to give national-level decision makers a clear, relatively simple measure of how sustainable their countries’ growth policies are. While standard national accounts (SNA) only consider the value of a limited set of manufactured capital and assets, ANS offers a more inclusive picture of changes in a comprehensive set of capital assets that constitute a nation’s wealth base, including a knowledgeable and skilled workforce and natural resources such as forests, fossil energy, metals, and minerals. The indicator also captures changes in these assets due to pollution and climate change. Positive saving indicates an investment in the future—that a nation is accumulating the assets needed to build up its wealth and ensure its economic growth over the longer term. Years of negative saving, on the other hand, suggests that a country is running down its capital stock and is on an unsustainable growth path.

Adjusted net saving is derived from the standard national accounting measure of gross national saving (GNS), by making four types of adjustments:

1. Deduction for the depreciation of produced capital, measured by the consumption of fixed capital, which equals net national saving;
2. Addition of investments in human capital, measured by current public expenditures on education;
3. Deduction for the depletion of natural capital, including minerals, energy, and forest resources; and
4. Deduction for the damages from pollution, including carbon emissions and exposure to particulate matter.

It is important to note that these estimates are indicative and provide a big picture overview, as they are based on publically available global databases. The benefit of the ANS dataset is the ability to assess cross-country comparisons and time trends in a consistent framework. But a more robust picture of Belize’s adjusted net savings can be achieved through a thorough assessment using country-specific data, modifying any methodological assumptions to its country context, and adding relevant missing natural capital components (e.g., land degradation).

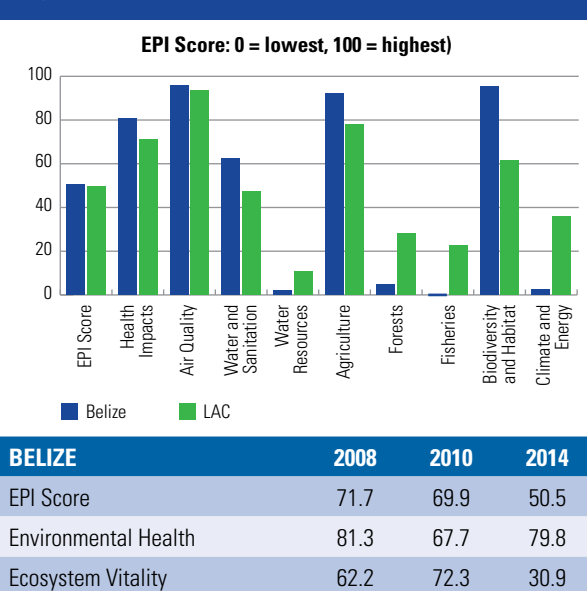
Source: World Bank (2011c)

both governmental and nongovernmental institutions. However, gaps in this governance represent an obstacle to sound environmental management in the country (see Figure 50). The main constraints are a lack of coordination and resources, antiquated laws that fail to address today’s challenges properly, ambitious policies and regulations that are developed but never enacted, and the absence of a land use policy as well as a unique authority responsible for water resources management (see Martin and Manzano (2010)).

In addition, the history of Belize has, in large part, been shaped by its vulnerability to natural disasters.

Belize has experienced frequent natural disasters of catastrophic proportions over the last half century. Hurricane Hattie destroyed half of Belize City in 1961, killing 400 people and submerging Turneffe Island and Caulker Caye in 13-foot storm surges. The economic

Figure 50: Environmental Performance Index



Source: Yale University.

damages estimated at over 600% of GDP prompted the Government of Belize to build a new administrative capital 50 miles inland in Belmopan.³⁴ In 2000, Hurricane Keith caused damages exceeding 45% of GDP, and one year later Hurricane Iris submerged Belize City in 14-foot storm surges and destroyed about 4,000 homes. Tropical Storm Arthur in May 2008 caused extensive damages to critical infrastructure and the agriculture sector (World Bank (2011a), (2011b)). An average of 3.3% of GDP was lost annually between 1993 and 2012 from disasters (see Figure 51). The fiscal impacts of disasters required significant capital expenditures to repair and reconstruct damaged infrastructure, resulting in increased debt, large budgetary deficits and unreliable funding streams, which collectively can limit sound macro-economic growth.

Belize’s vulnerability to natural disasters is exacerbated by the effects of climate change, as natural hazards are expected to intensify both in terms of frequency and severity. The United Nations Framework Convention on Climate Change identified Belize as one of the countries that is most vulnerable to the adverse impacts of climate change. More than 50% of the population and business centers are on or near the long low lying coastline, most of which is at or near sea-level. The Belizean economy is highly sensitive to

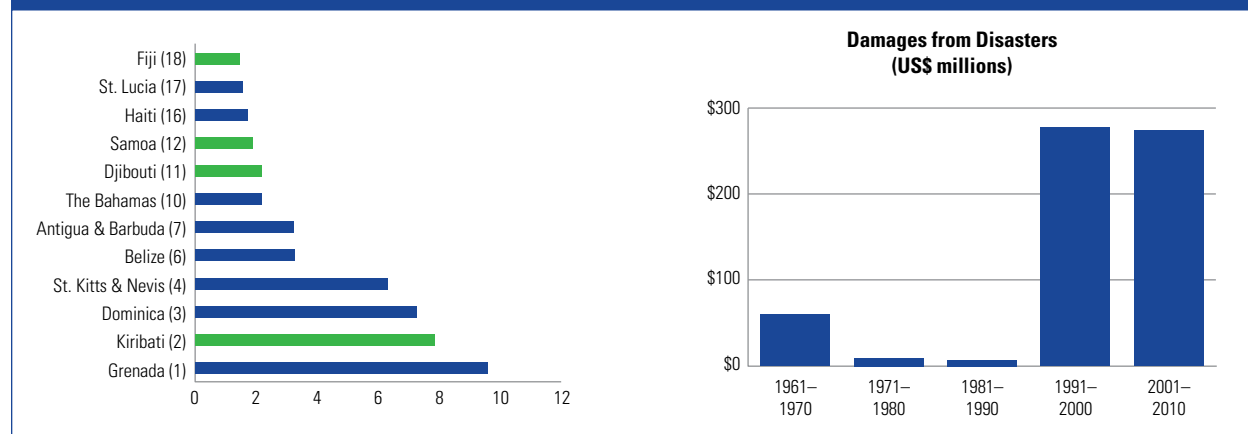
climate variability due to its dependence on natural resources. Projections suggest that frequent heat waves and droughts are expected, including high intensity rainfalls, and rising sea levels, which would lead to increased storm surges and riverine flooding.

In the face of Belize’s disaster risk profile, common practices to reduce vulnerability can include the adoption of non-structural (e.g. business continuity and crises management plans) as well as structural measures (e.g. retrofitting existing infrastructures). Such an approach is imperative for the country given the need to face recurrent events whose impacts are too difficult to be mitigated from a physical perspective (for instance, wide spread flooding due to a hurricane) as well as the need to upgrade infrastructure that no longer meet the current design needs.

Climate change could also have a severe impact on electricity generation in Belize. Hydropower provided 51% of electricity in 2013. Changes in precipitation and evaporation can affect river flows, reservoir inflows and ultimately, power production. Future climate change is likely to lead to greater uncertainties over the availability of water for many uses, including energy production, and will pose challenges to Belize’s capacity to manage water infrastructure effectively. Future reductions in inflows due to climate change could see hydropower production decrease by up to 10%, as early as the 2020s. In addition, significant elements of the fossil fuel supply, electricity generation and transmission

34 EM-DAT, The International Disaster Database, accessed January 2013.

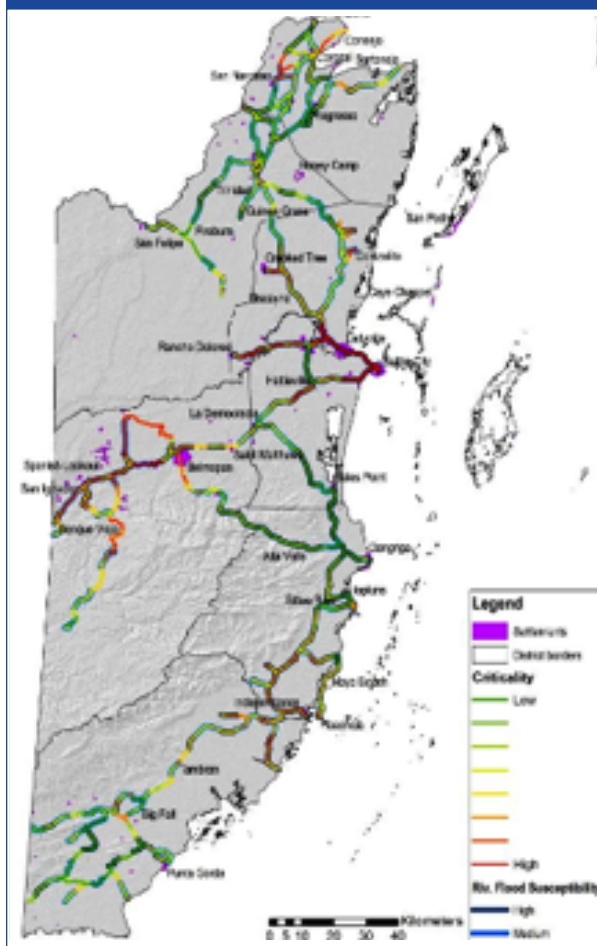
Figure 51: Estimated annual losses due to Extreme Climate events, % of GDP, 1993-2012 (left panel); Damage from Disasters in US\$ million in Belize (right panel)



Source: LHS: Harmeling and Eckstein (2013). Numbers in parentheses indicate the global rank of 183 countries or territories. Data are annual averages from 1993-2012. RHS EM-DAT database, May 2014

infrastructure of Belize are on, or close to, the coast. These include power stations, substations, and sections of the transmission lines. Storage depots for fossil fuels at Belize City Port and Cala Grande in the south are vulnerable to coastal storm surges, inundation, sea level rise and coastal erosion. The Caribbean Sea has experienced rising sea levels, at a rate of 3.2 mm/year in the last 20 years. A World Bank study concluded that Belize could see a 40% increase in the extent of its storm surge zone this century due to sea level rise and land movements. Imported energy from Mexico is also at risk from climate impacts occurring there which may not have affected Belize itself.

Figure 52: Criticality and Flood Susceptibility of Belizean Roads



Source: World Bank (2014).

Weaknesses in Infrastructure

Vulnerability to climate change and natural hazards is compounded by weaknesses in infrastructure, most notably in the energy sector. Belize's transmission lines are vulnerable to climate impacts as they run through varying geographies ranging from the coastal plain to lowlands, and the Maya Mountains. Hurricanes pose a particular risk to the transmission and distribution system, as evidenced by Hurricane Dean in 2007: In the first six hours, the dispatched load decreased by more than half (from about 40 MWh to about 16 MWh) mainly due to failure of distribution lines. The system was beginning to recover when the failure of a transmission line brought the system to an almost total blackout. In some instances, there is a lack of knowledge on the exact mechanisms by which a weather event results in system outages. In addition, the non-segmented nature of the transmission and distribution network means failure in one part of the system can disrupt the national power supply altogether.

Underdeveloped and dilapidated infrastructure, particularly in the transport sector, is also a key constraint to reduce vulnerability to disasters.

Throughout Belize, critical infrastructure, such as public buildings and roads, are in need of rehabilitation or reconstruction. The road network is particularly vulnerable due to the lack of redundancy (see Figure 52).³⁵ Furthermore, roads have not adequately incorporated hazard and risk into detailed road designs and this, coupled with inadequate preventive maintenance and rehabilitation, results in unsafe road conditions during flooding events. During an extended period of rainfall in 2008 an estimated US\$11 million in damages were incurred, of which US\$5 million were to road infrastructure³⁶. With 70% of the population living near primary and secondary road networks, flooding of one section of roadway can cut access and severely disrupt the flow of economic and social movement. Of the 3,281 km of road network only 20% are paved and the quality of road infrastructure is poor and deteriorating at an increasing rate. According to IADB (2013), the proportion of road systems considered to be in poor or bad condition increased from 12% (2007-

³⁵ Vulnerability of the road network can also be attributed to old designs, lack of drainage systems maintenance, severity of disaster events, flatness of terrain, among others

³⁶ IADB (2009), Section 2.6, p 5, and NEMO (2008).

2008) to almost 60% (2012-2013). The Government has prioritized the transport sector in their medium-term investment planning, considering its vulnerability and socio-economic importance.

Given Belize's topography and the poor maintenance of the drainage systems, flooding of the road network from excess rainfall, storm surge or riverine overflows, results in significant traffic delays and therefore economic impacts due to the disruption of the supply chains. In the case of Hurricane Keith (2000), the roads around Belize remained under water for between 3 and 7 days resulting in US\$16.1 million in indirect losses.³⁷ Similarly, after Tropical Depression 16 in 2008, communities near San Ignacio had limited access into and out of the municipality as one of the two bridges into the municipality was completely submerged for multiple days.³⁸

Against this backdrop the Government developed the National Climate Resilient Investment Plan (NCRIP) to address the impacts of climate change on social and economic development. This plan was elaborated with support from the World Bank and financial support from the Africa Caribbean Pacific (ACP) European Union (EU) Natural Disaster Risk Reduction Program, received through the Global Facility for Disaster Recovery and Reconstruction (GFDRR). Adopted in October 2013, this multi-sectoral plan lays out priority investments by sector, integrating physical interventions with capacity building activities and policy actions, to quantifiably reduce vulnerability and build climate resilience in the country. In the past, Belize's legislation and policy measures to mainstream disaster risk management (DRM) were fragmented and lacked ownership and participation of ministries. To address this disconnect, the NCRIP engaged all relevant stakeholders from the beginning to devise holistic and participatory approaches to address climate resilience. Based on the NCRIP, the Government has articulated a medium-term plan that seeks to fully integrate climate change adaptation, climate variability, and comprehensive disaster management into national development planning processes and actions.

37 Estimated using (i) value of time calculations for delays in buses and light vehicles due to cut roads as well as the time for alternative routes; and (ii) increases in vehicle operation costs due to worsened road conditions and longer routes

38 ECLAC, "Topical depression 16", 2008.

Through the NCRIP, the Government made great strides to prioritize road infrastructure investments for enhanced climate resilience. This has been based on two considerations: (a) socio-economic criticality of the road network; and (b) flood susceptibility of the primary and secondary road networks. Criticality of the roads was assessed through a participatory multi-criteria evaluation (MCE) process with Government and key stakeholders such as NGO representatives and private sector, while the flood susceptibility was carried out using a data-driven analysis. The results from the MCE process³⁹ and the flood susceptibility evaluation were used to identify priority areas for investments. The NCRIP identified approximately US\$430 million in physical investment needs, of which there is a US\$125 million financing gap. The World Bank is providing support through a recently approved US\$30 million loan for the Belize Climate Resilient Infrastructure Project (BCRIP).

Offshore Oil Exploration

The possibility of tapping on offshore oil exploration as an additional source of revenues and growth has been criticized because of the potential risks posed to its major sectors of tourism and fisheries and high-profile foreign direct investments. The tourism sector is estimated to employ some 28% of Belize's workforce and was responsible for 21% of its GDP in 2014; fisheries is believed to employ some 15% of the working population. At least one study estimates that the risk of an oil spill or damage to the environment and ecosystems could be bigger than the return that offshore oil exploration could bring in the medium to long runs (see Cisneros-Montemayor et al. (2013)). In addition, during consultations associated with this SCD, concerns were raised that offshore oil drilling could affect or discourage high profile investment projects such as Norwegian's cruise ship port in Harvest Caye, Leonardo Di Caprio's proposed development on Blackadore Caye, the proposed Stake Bank cruise ship port and resort, and the luxurious 8-star Puerto Azul development in the Northern Two Cayes.

39 More specifically, seven criteria were used to prioritize road investments: (1) economic connectivity, (2) access to socially vulnerable population, (3) access of relief services to communities, (4) road conditions, (5) demand and level of use, (6) dependency/redundancy of the road, and (7) essential evaluation network.

The stakes are very high as tourism and fisheries employ a significant share of the population. A study by the World Resources Institute in 2008 estimated that the value of the reef and fisheries, tourism and shoreline protection contributed \$700 million annually to Belize; higher estimates peg the value of the reef closer to one billion dollars annually. Tourism alone brings in \$680 million annually and by far the biggest and most popular attractions for visitors are the marine protected areas, according to the government's own statistics, as compiled by the Belize Tourism Board. Commercial fishing brings in only about US\$14 – \$16 million annually for about 4,500 licensed fishermen and their families, but sport fishing already provides 2,000 jobs, and the Bonefish Tarpon Trust estimates sport fishing contributes about \$100 million annually to the Belizean economy. In terms of employment, government reports estimated that 15,000 Belizeans benefited directly or indirectly from fishing activities.

The debate on the pros and cons of oil exploration vis a vis its impacts on biodiversity and tourism sector has been profuse in Belize. These issues have been a part of national discussion as evidenced by consistently favorable rulings of high-profile court cases for both NGOs and IPs, local and international media attention on marine eco-system and eco-tourism issues, and the consultation and engagement process with NGOs initiated by the Government of Belize on its draft Petroleum Exploration Zones and Exploration Guidelines. A recent public referendum in 2012 resulted in a 98% vote against oil exploration and a subsequent annulment of oil concessions pending environmental impact assessments. This decision, however, has recently been relaxed.

There have been consistent mechanisms for consultations with civil society sponsored by the Belizean government. Key mechanisms consisted of public consultations by the Coastal Zone Management Authority and Institute (CZMAI) on the Integrated Coastal Zone Management Plan and the recent release by the Government of Belize of its draft petroleum guidelines for exploration and extraction. The Integrated Coastal Zone Management Plan has been mandated under the Coastal Zone Management Act and determines the sustainability of coastal land use and outlines recommendations for sustainable development along the entire coastal zone in Belize. The plan makes use of scientific geographic information system (GIS) data provided by the Natural Capital Project of Stanford

University and WWF to develop scenario mapping for conservation, economic development, and trade-offs between the two. The results have been used to inform coastal zone management for the entire Belizean Coast that designates areas for preservation, restoration, development, and other uses.

In early 2015, consultations with NGOs and IPs on the draft Petroleum Exploration Zones and Exploration Guidelines reaffirmed concerns on the risks of offshore oil exploration. The draft Petroleum Exploration Zones and Exploration Guidelines is based on the premise that Belize can be parceled out in petroleum concessions. It divides Belize into four zones: zone 1, where no petroleum exploration is to be allowed, and zones 2 to 4, where petroleum exploration would be allowed with varying degrees of restrictions and guidelines, ranked based on priority level. Only the Maya Mountain Massif (with 14 protected areas) and north Ambergris Caye are listed in zone 1. Zone 1 also includes most of offshore Belize, whereas the atolls and cayes offshore are listed as zone 2, the areas where exploration would be allowed with maximum restrictions. Concerns have been raised that the Blue Hole, one of the greatest touristic attractions in the world, is included in the area shaded as zone 2. Oceana Belize and the Belize Coalition to Protect Our National Heritage have called for a complete moratorium on any offshore oil exploration in Belize territorial waters. The Sarstoon Temash Institute for Indigenous Management (SATIIM), representing indigenous peoples in Belize, has also openly rejected the draft. The most recent concession map shows that the company which had been given a contract covering the Blue Hole, Princess Petroleum, had relinquished that area, although it retains a concession over adjacent waters.

Historically, petroleum exploration began in 1938 when Shell was given a license to conduct exploration work. The first oil exploration well in Belize was drilled in 1956 by Gulf Oil in the Yalbac area in Cayo District. Between 1956 and 1982, 41 exploration wells were drilled by major oil companies such as Gulf, Philips, Anschutz, Chevron, Esso and Placid. From 1982 to 1997, only nine further exploration wells were drilled by small or independent companies, i.e., Spartan, Central Resources, Lucky Goldstar, Dover and Bright Hawk. Exploration wells drilled in Belize before 1997 found some oil, but there were no commercial discoveries.

The first commercial discovery came in June 2005 by Belize Natural Energy Ltd. From its first exploration well Mike Usher #1 in the Spanish Lookout Community. Belize Natural Energy Ltd. made a second discovery in the Never Delay area with the well Never Delay #1. Both fields are located on the margin of the Corozal Basin, which is a part of the larger Peten Basin extending into Guatemala and Mexico. The produced oil is trucked to a gathering facility at the Big Creek Port for export to the US Gulf Coast. A percentage is sold on the local market to a few large scale producers in the agriculture industry. The success of BNE made Belize more attractive and allowed the Government to negotiate for more favorable fiscal terms in subsequent licenses.

Factors that May Affect Social Sustainability

The main challenge for social sustainability in Belize stems from a non-inclusive growth model. In spite of reasonably robust economic growth rates, unemployment remains relatively high in Belize while poverty and human development outcomes seemed to have worsened according to the latest data available. The most remote and isolated areas in the country tend to have the lowest welfare indicators. Education outcomes are poor and returns to schooling almost nonexistent suggesting that urgent attention needs to be given to reform of the education system. Crime and violence are also high and are believed to affect disproportionately the bottom 40% - although data collection in this area remains difficult and existing household surveys do not seem to capture that effect with precision.

Remoteness

Non-monetary poverty has increased in Belize suggesting that the poor and vulnerable suffer different forms of deprivations. Widening the lens of household welfare beyond monetary indicators illustrates other multiple deprivations experienced by the poor, which limit their economic opportunities. For instance, as of 2009, 3% of the extreme poor had health insurance, much less than the coverage of the highest quintile (19%). Pre-school enrollment rates of children 3-4 years old from poor households are half of that of children from the two top quintiles of the consumption distribution. A gap of similar magnitude is also seen for

enrollment in secondary education. Furthermore, a relatively larger fraction of children 13-16 years old from poor households that are attending school receive primary rather than secondary level education, signaling uneven gaps in school performance and attainment and in the quality of education. Unsurprisingly, compared to the rest of the population, the housing conditions of the poor, including access to basic services such as electricity, are also worse (Table 8).

Table 8: Housing characteristics in 2009

	POOR	NOT POOR	TOTAL
OVERCROWDING	PERCENTAGE OF HOUSEHOLDS		
Less than 1 person per room	15	54	42
1 and 2 persons per room	61	42	48
More than 2 people per room	24	4	10
"DEFECTIVE" HOUSING	PERCENTAGE WITHOUT ATTRIBUTE		
Not concrete or brick walls	68	45	46
Water from well, standpipe or river	5	2	3
No flush toilet	61	20	33
No electricity for lightning	16	4	8
No indoor kitchen	25	9	14

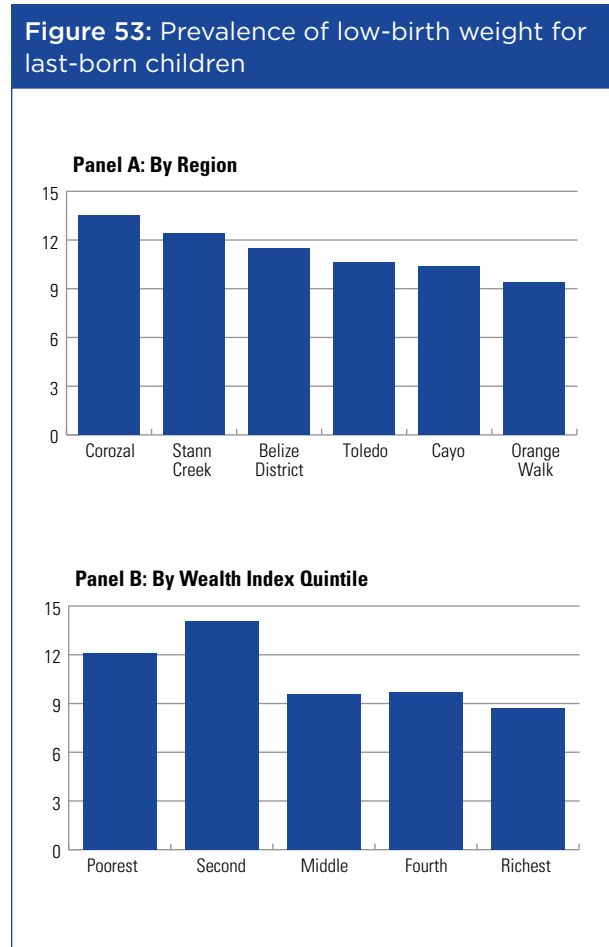
Source: Government of Belize and Caribbean Development Bank. 2009 Country Poverty Assessment Final Report, August 2010

The most remote and poorest regions of the country tend to have the lowest welfare indicators. The prevalence of low birth weight, a leading infant health indicator associated with development difficulties and welfare costs later in life, is high nationally, and more persistent in some of the poorest regions of the country. Data from UNICEF for the period 2006-2011 shows that 14% of the Belizean infants weight less than 2,500 grams, much higher than the low-birth weight rate for the LAC region (8%). Data for 2011 broken down by regions also illustrate disparities across different parts of the country. For instance, Corozal, the region with highest poverty rate (jointly with Toledo) has the highest prevalence of low-birth weight (Figure 53, Panel A). Likewise, splitting the sample by quintiles of a wealth index reveals that this problem is more persistent for the bottom 40% (Figure 53, Panel B). A similar pattern is observed across ethnic groups, with Mayans and Creoles being the more disadvantaged.

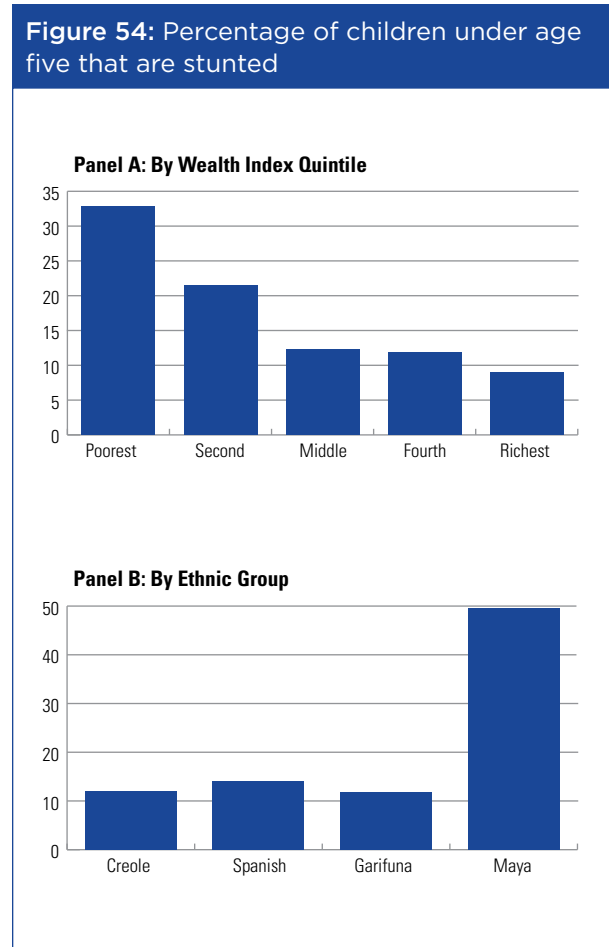
A high fraction of Belizean children under the age of five show stunted growth. A leading indicator of long-term nutritional status, stunting is a primary manifestation of malnutrition among other diseases. In 2011, standardized height for age measures for Belize show that 22% of the children are stunted (less than two standard deviations of the WHO Child Growth Standards median), almost twice the fraction recorded in the LAC Region (12%). The data also reveals a strong gradient between stunting and household wealth, area of residence (higher for rural households) and ethnicity (Figure 54), among other socioeconomic factors. This is another indicator of the regressiveness of Belize’s growth model that needs to be addressed so that the country can show progress in reducing extreme poverty and improving shared prosperity.

Lackluster School Achievements

Average measures of school participation and skills acquisition indicate major needs for improvement, with large inequalities across wealth quintiles and ethnic groups. Data from the two latest UNICEF’s MICS surveys (2006 and 2011) has consistently estimated primary enrollment to be around 95%, yet fewer than half of students complete primary on time and many drop out in the transition to secondary (Naslund-Hadley et al 2013). As of 2011, 55% of the children of secondary school age actually attended secondary or higher. Beyond participation, learning outcomes also appear to be weak. In 2011, only 44 percent of students taking the national primary school examination received a score of satisfactory or above, and as discussed earlier, attainment of basic education does not appear to be valued by the labor market (Naslund-Hadley et al 2013). Rather than covering the



Source: MICS Survey (2011)



Source: MICS Survey (2011)

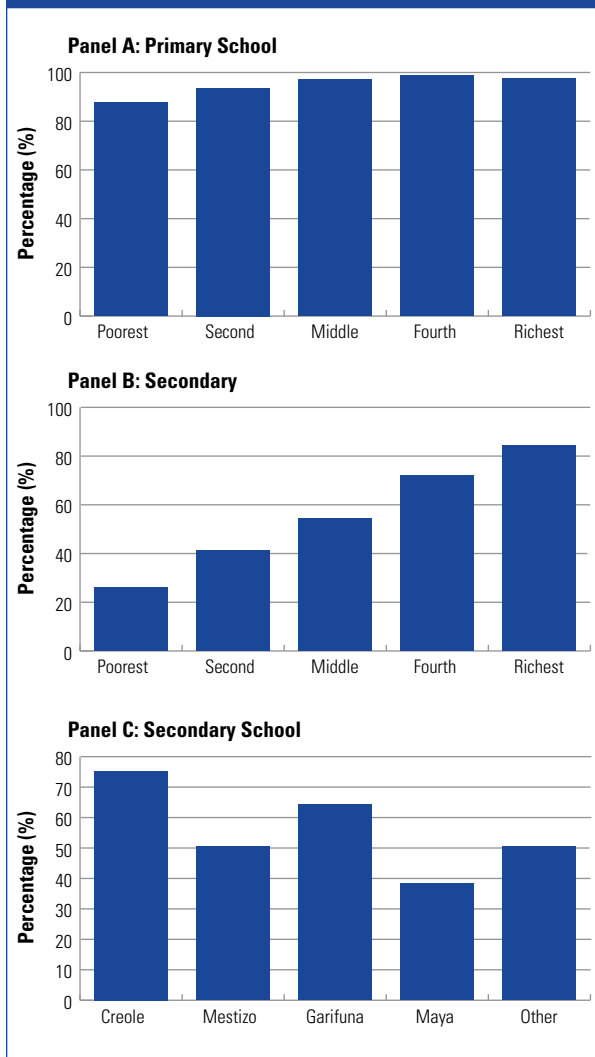
Box 6: Indigenous Peoples in Belize Have Used the Court System to Assert their Land Rights

SATIIM, the Toledo Alcaldes Association, the Toledo Maya Cultural Council, and the Maya Leaders Alliance have managed to use the court system to protect and assert collective indigenous ownership over ancestral Mayan lands. Key court cases and rulings include the following:

- In 1996, the Mayan communities launched their first legal challenge against the Belizean government over land rights. This was followed in 1998 by two indigenous peoples rights groups, the U.S.-based Indian Law Resource Center and the Toledo Maya Cultural Council, which filed a petition to the Inter-American Commission on Human Rights (ICHR) arguing that by granting logging and oil concessions in indigenous territories without local consultation, the Belizean government was violating certain rights guaranteed under the American Declaration of the Rights and Duties of Man. In October 2004, the ICHR ruled in favor of the petitioners, concluding that the failure of the government to consult with the Mayan people, and the negative environmental effects arising from the concessions, constituted violations under international human rights law.
- In 2007, the Supreme Court determined that the Mayan communities of Conejo and Santa Cruz hold customary title to their lands and ordered the government to respect and demarcate their territory. The Supreme Court confirmed that the nature of the interest of the title was communal and constitutes property under the Constitution of Belize. Moreover, it found that the granting of concessions to third parties to utilize the property and resources located on lands belonging to the communities of Conejo and Santa Cruz amounts to a violation of the Constitution.
- In 2008, the Supreme Court extended the findings with respect to the communities of Conejo and Santa Cruz to all Maya villages in Toledo and five additional Maya villages in Stann Creek to the extent that the Court confirmed the existence of customary land tenure. In addition, the Supreme Court found that there is an obligation on behalf of the Government of Belize to adopt affirmative measures and, in consultation with the Mayan communities, develop the legislative, administrative or other measures necessary to create an effective mechanism to identify and protect Maya customary property rights.
- In 2010, the Court of Appeal affirmed that all Mayan communities in the Toledo District hold customary collective rights over the land and resources. The Court of Appeal did not uphold that the Government would have to take affirmative legislative, administrative or other measures as per the earlier Supreme Court decisions.
- The above referenced court decisions notwithstanding, the Government of Belize approved US Capital Energy activities within the region in and around the Sarstoon Temash National Park without consulting with the local Mayan communities.
- In 2013, SATIIM filed another lawsuit against the government and US Capital Belize Energy Ltd, and in April 2014, the Supreme Court ruled that the permits granted to the oil company for oil drilling and road construction violated the applicable principle of free, prior and informed consent and were unreasonable and unlawful, but did not render them void.
- Both the MLA and TAA, as well as the Government of Belize cross appealed the 2010 decision by the Court of Appeal to the Caribbean Court of Justice (CCJ), the highest appellate court of Belize. On April 25, 2015, the CCJ issued a consent order as negotiated by the MLA et al on the one hand and the Government of Belize on the other clarifying the level of protection of indigenous land rights. The CCJ confirmed the existence of customary land tenure in Maya villages in the Toledo district and the need for the Government of Belize to identify and protect the rights of the Maya communities. The CCJ also expects the parties to report back on compliance with the consent order by April 30, 2016.

entire eligible population, participation in primary school is still influenced by family incomes (Figure 55, Panel A). Such a relationship is even more marked for secondary education. For instance, one in four children from the bottom 20% of the wealth index distribution attend secondary school, compared with more than four out five children from the highest quintile (Figure 55, Panel B). Similarly, ethnicity appears to be a strong correlate of human capital accumulation (Figure 54, Panel C). These are additional challenges for boosting shared prosperity in Belize that may be related to location and geography.

Figure 55: Primary and secondary school net attendance rate by Wealth Index and Ethnic Groups (2011)

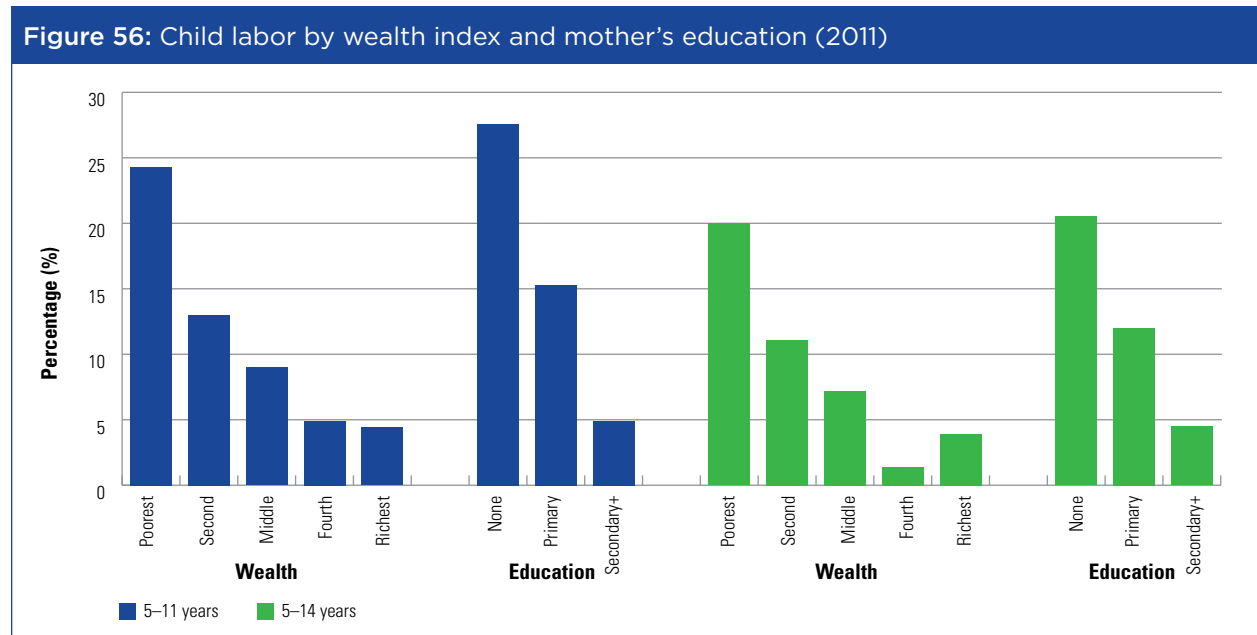


Source: MICS Survey (2011)

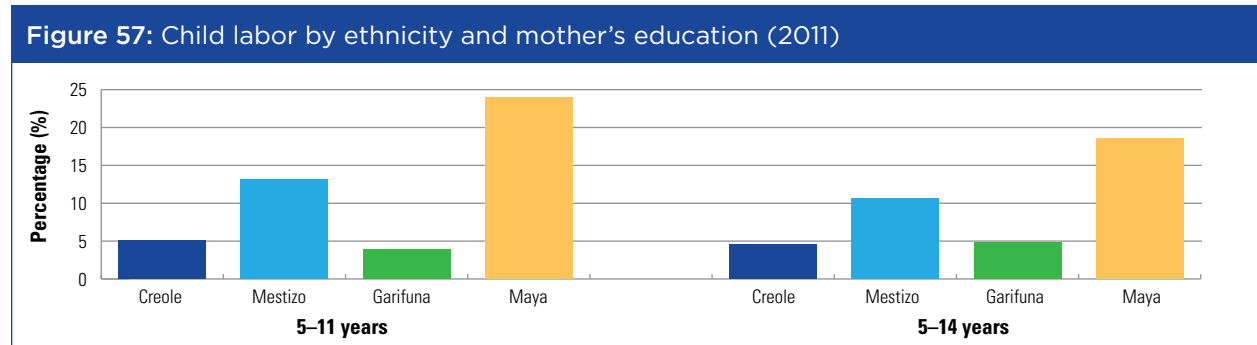
These outcomes point to challenges of access, costs, and low quality in the education system. In Belize, over 80 percent of primary and secondary schools are privately operated, but most of these schools are publicly subsidized. Relatively high rates of public spending on education, at around 7 percent of GDP, have not succeeded in providing universal access or high quality in this system for several reasons. In particular, financial allocation mechanisms favored better-off, urban schools until recently, and there is very little public quality assurance (Naslund-Hadley et al 2013). In addition, direct costs of attending school are relatively higher than in regional neighbors, and the need to pay fees, buy uniforms and supplies, and pay for transport (particularly at the secondary level where many do not have access to a nearby school) were frequently cited in consultations as significant deterrents to staying in school. Opportunity costs may also be high, particularly for poor households that benefit from children's contribution to the family's livelihood. A closer look at the issue of child labor is afforded via the 2011 MICS survey, and specifically at the proportion of children age 5-14 years involved in at least one hour of economic and/or 28 hours of domestic work per week. According to this definition, 10% of children in that age range are involved in child labor. It is also clear from the data that child labor is strongly linked to family wealth, school attainment of mothers and ethnicity (Figure 56 and Figure 57).

Among working-age adults, educational achievement varies substantially by gender and ethnic status, with males largely less educated than females. The highest level of education of the majority of the employed (77 percent) was primary school or lower, while only 13 percent had finished secondary school and 7 percent had concluded tertiary education in September 2014. Men tend to be less educated than women in Belize. For example, the highest education level of 85 percent of men was primary school or below compared to 70 percent for women. Also women were two times more likely than men to graduate from tertiary school – 10 vs. 5 percent respectively (Figure 58, Panel A). Additionally, ethnic minorities tend to be less educated. For example, the highest education level of 68 percent of employed Mayans is below primary (Figure 58, Panel B).

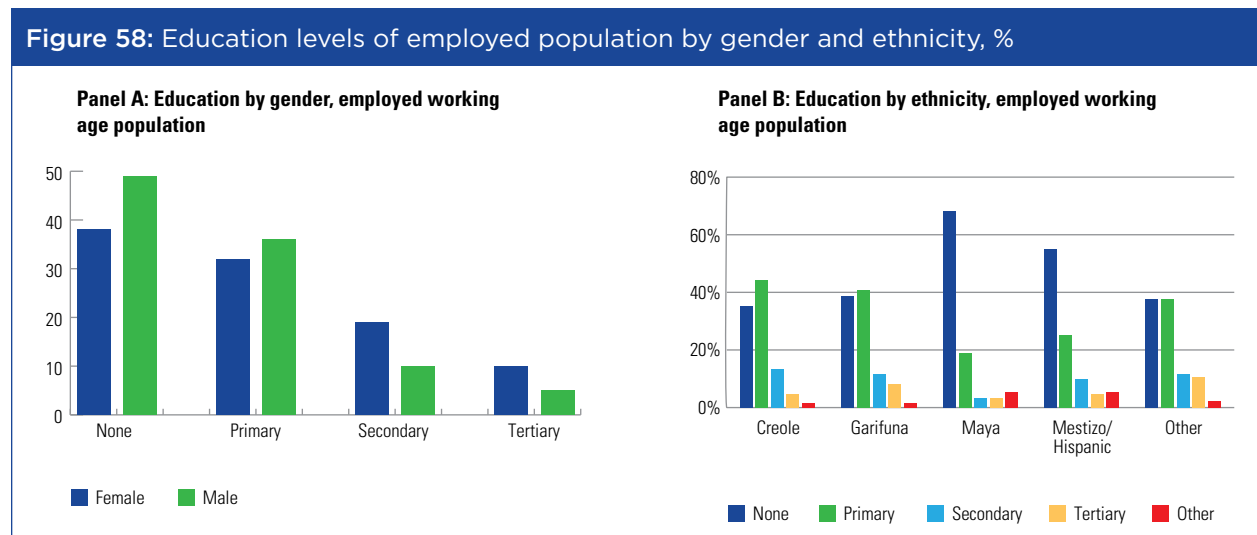
While Belize is on track to meet most of the 2015 Millennium Development Goals (MDGs), the social challenges noted above limit progress towards



Source: MICS Survey (2011)



Source: MICS Survey (2011)



Source: LFS, September 2014

Source: LFS, September 2014

poverty and hunger reduction, one of the central MDGs. The most recent UNDP Progress Report for Belize (2013) states that the country is unlikely to meet the first MDG target: eradicate extreme poverty and hunger. On the contrary, the same study reports that Belize will likely achieve most of the other MDGs, including net primary education enrollment ratios and literacy rate (MDG 2)⁴⁰; gender parity ratio in primary education (MDG 3); infant and child immunization rates (MDG 4); skilled birth attendance rate and antenatal care coverage (MDG 5); and slowing of the prevalence of HIV/AIDS, providing universal access to anti-retrovirals, significant success in reduced mother to child transmission rates and eliminating malaria (MDG 6).

Social protection has been a priority in Belize and there are several recent programs that are encouraging. Over the past couple of years, important advances have been made in the area of social protection in Belize. In February 2011, the Prime Minister launched Belize's current flagship safety net Program, Building Opportunities for Our Social Transformation (BOOST), providing further evidence of the current Administration's commitment to poverty alleviation. The Conditional Cash Transfer (CCT) Program, which aims to smooth consumption for poor and vulnerable households while increasing investments in human capital investments, namely in education and health, has similar features to other CCT programs in the region; however, it also includes a number of unique design elements including a differentiated benefit structure by grade and sex to address the opportunity costs of schooling (Table 10) as well as monthly payments through the local credit unions promoting financial inclusion (more than 98% of beneficiaries receive payments through the credit unions). In April 2013, the program benefitted some 3,200 households (about 8,016 individuals) that had been targeted through the application of a proxy means test designed under the Single Information System of Beneficiaries.

Better targeting and less fragmentation could increase the effectiveness of existing social safety net programs. Belize has a number of social assistance and safety net programs administered and managed by various ministries (Health, Education, Human Development, Agriculture) and non-governmental organizations. Subsequently, implementation is fragmented and with scarce budgets and the lack of a

formal targeting mechanism for most programs, coverage of persons at risk is limited. Furthermore, when looking at resource allocation, spending, to some degree, continues to be more discretionary rather than programmatic. As a result, there remains a large emphasis placed on school fees/books or scholarships, as well as pensions for public servants. In 2010, about 1.1% of GDP was spent on programs benefitting children aged 6-17 years of age (mostly concentrated in school fees/books or school scholarships - and not targeted to the most vulnerable individuals) and about 1.6% of GDP was spent on the Public Officers Plan (pension), which only benefits those who have been public servants.

Crime and Violence

Belize's homicide rate is high in absolute and relative terms. It has increased 150 percent between 2000 and 2010, from 16 to 41 per 100,000 inhabitants and was the sixth highest in the world in 2010 (Peirce and Veyrat-Pontet (2013)). Official data from Belize suggest that in 2012 the murder rate achieved 42.5 per 100,000 inhabitants—the highest rate on record in Belize which is also higher than the average rate for Central America and the Caribbean, ranking Belize behind only Guatemala, Honduras, El Salvador, and Jamaica in terms of national rates. The situation gets worse in Belize City where the homicide rate is estimated at 106 per 100,000—a number similar to those observed in Guatemala City and San Salvador which are two of the most violent cities in the region. According to data from the U.S. Department of State, impunity is also a problem as evidenced by a very low conviction rate; between 1999 and 2007, for example, only 10 percent of homicide cases resulted in a conviction (U.S. Department of State, 2012).

Because Belize's population is small and interconnected, the social consequences of crime and violence can be substantive. With a population of 2.7 million, Jamaica has a higher homicide rate—51 per 100,000—than Belize (UNODC, 2011), but exposure to violence is believed to be significantly higher in Belize. According to recent research, 99 percent of Belizean youth have been exposed to violence, compared to 58 percent in Jamaica (Gayle and Mortis (2010)). This is significant because, in addition to negative psychological effects on individuals, youth exposure to violence is considered an important risk factor for future perpetration of violence.

40 With regard to MDG 2, note that Näslund-Hadley, Alongo, Martin (2013) believe that MDG 2 will not be met.

Table 9: Benefit Levels (Bz\$) for Compliance with Education co-responsibility, differentiated by Grade and Sex

		PRIMARY LEVEL								SECONDARY LEVEL			
GRADE		INF 1	INF II	STD I	STD II	STD III	STD IV	STD V	STD VI	FORM 1	FORM 2	FORM 3	FORM 4
BZ\$	Benefit Boys	44	44	44	44	51	53	55	57	67	72	77	82
	Benefit Girls	44	44	44	44	49	51	53	55	60	65	70	75
		FLAT PAYMENT				DIFFERENTIATED PAYMENT BY SEX AND SCHOOL-LEVEL							

Source: Government of Belize.



SYNTHESIS AND PRIORITIES

Belize's welfare indicators have not improved as expected for a country that has experienced positive economic growth for the last 30 years. In fact, over the last 15 years or so, per capita income has almost stagnated. As part of the systematic diagnostic of the prospects for sustained growth and inclusion in the country, this section first discusses the factors that may help understand why, in spite of positive economic growth, Belize has not developed faster, and then outlines areas in need of a big push to accelerate progress towards the goals of boosting shared prosperity and reducing extreme poverty.

Why Hasn't Belize Developed Faster?

Belize is not different from many other small economies who have their development paths conditioned on both exogenous and endogenous factors. For a small open economy rich in natural resources like Belize, a number of exogenous factors could condition its development path. Among those one could include size, geography, distance from large markets, and the degree to exposure to natural disasters – all of which are outside of the authorities' control and could affect the country's growth prospects.

On the other hand, endogenous factors which could be seen within the purview of government policy, could also have a bearing on the country's growth and shared prosperity prospects. Among these endogenous factors one could include the quality and relative abundance of factors of production, namely capital and labor, which in turn depend on government built policies and institutions. Development prospects would thus be a function of how the country manages these exogenous and endogenous factors.

Exogenous Factors

Belize's global comparative advantage is derived from its natural resource base, which supports the tourism and agriculture sectors, and its advantageous geographical proximity to major markets. Belize is famous for its beautiful beach islands on the second largest coral reef in the world, and its dense forests, and its cultural and historical heritage dating more than a thousand years. Tourists flock this small country to enjoy all this while the agricultural sector thrives with the exports of commercial crops such as sugar and citrus fruits. The country is also strategically located close to major markets in North,

South and Central America and this offers the country an opportunity to mitigate risks associated with its small size and lack of economies of scale. As discussed in chapter 1, Belize growth performance has been characterized by a stop-and-go pattern suggesting that output volatility is an issue that needs to be addressed for this small middle income country. There is not much that can be done to avoid volatility in the context of a small open economy, but diversification of trade partners, for example, could help mitigate its impact. Small economies also show high vulnerability to external shocks including in terms of trade and, depending on their geographic location and topography, natural hazards and climate change could also be sources of vulnerability.⁴¹ The frequency and intensity of natural disasters usually contributes to erode fiscal space and increase debt-to-GDP levels with deleterious consequences for long-term growth.

With its small territory and population, Belize suffers with the consequences of lack of economies of scale that can act as a barrier to economic growth. Belize's growth performance is constrained by its limited availability of arable land. Despite having a relatively large territorial land mass of 22,810 Km², only a small fraction (700 Km²) is considerable arable.⁴² The transmission channels through which size could affect growth are complex and difficult to deal with. Small economies are by definition also highly open economies which tend to specialize in a few sectors, not by choice but by necessity. They tend to import almost everything and have very few sources for obtaining foreign exchange. With openness and specialization comes terms of trade volatility, which has been found to lead to output volatility (Lederman and Maloney (2012)) which in turn can impact growth negatively if not managed properly (Ramey and Ramey (1995)).⁴³ Small

economies also tend to have large public sectors, given the indivisibilities associated with the provision of public services and the limited diversification of economic activity and of the private sector.

As in many other small states, the limited level of savings in Belize is an important factor that has impacted its growth and development prospects. The literature shows that economic size is an important predictor for low savings, and the situation in Belize confirms this stylized fact. As discussed in chapter 1, gross domestic savings as a share of GDP in Belize has averaged around 10% in the recent past and this is well below the LAC average of 15% and one of the lowest levels amongst comparator countries. At the same time, the share of gross fixed capital formation over GDP is close to 20% which is a clear indicator of a domestic savings gap that predisposes the country to current account deficits and the buildup of debt. Foreign direct investment is an important source of financing in Belize and represents more than 49% of gross fixed capital formation (well above the LAC average of 18%), but again as in many other small states, FDI in Belize does not generate many productivity spillovers and/or backward and forward linkages in the local economy and therefore does not seem to have a significant impact on long-term growth.⁴⁴

Vulnerability to natural disasters and weather shocks can also impact savings, contribute to increase debt, and ultimately affect growth negatively. According to at least one international ranking, Belize is the sixth most vulnerable country to natural disasters in the world (see Harmeling and Eckstein (2013)) and faces average annual losses of the order of 3% of GDP stemming from weather events (see chapter 4). This type of vulnerability (along with volatility in terms of trade and output) can affect agents' savings behavior negatively. According to the

41 The global economic crisis of 2008-09, for instance, had a major impact on the country, and came on the heels of other exogenous shocks including food and fuel price increases of 2008 and natural disasters.

42 In the vulnerability ranking of small states proposed by Becker (2012), Belize scores a 4 on availability of arable land in a rank that varies from 1 (more vulnerable) to 50 (less vulnerable).

43 Ramey and Ramey (1995) estimate the effect of volatility in a sample of 92 countries during 1960-1985. They find that volatility, measured as the standard deviation of GDP growth, has a significant negative effect on transitional growth and the long-run level of GDP per capita. The authors document

that the effect of volatility on GDP per capita continues to be negative and significant when controlling for the investment share of GDP.

44 Sanchez-Martin, de Piniés and Antoine (2015) argue that the size of the host country matters to determine the extent to which FDI impacts the local economy. In a small country, there is usually a limited number of firms with the capacity and quality to serve multinational affiliates that are part of global value chains. The small size of the host market also implies that FDI tends to be export-oriented and rely more on foreign technology which results in a more limited engagement with the local economy.

literature, if agents are averse to losses and are constantly having to reevaluate their spending decisions by virtue of frequent unpredictable shocks, they may display a behavior that favors present consumption with the implication that they will save less and place a lower weight on inter-temporal consumption optimization (see World Bank (2015)). In addition, whenever a disaster strikes, the government has to either reallocate expenditures to address the consequences of the disaster or borrow internationally. In 1961, a single event (Hurricane Hattie) caused losses equivalent to 200% of GDP in Belize while early in the 2000s the debt-to-GDP ratio increased by more than 20 percentage points as a result of another major disaster. As documented by Worrell (2015), governments of small open economies tend to cut capital expenditures first when faced with an adverse shock (such as a natural disaster), with negative consequences for long-term growth.

Endogenous Factors

The small size of Belize's population is a limiting factor that affects its ability to grow faster, but the low quality of the labor force is also an important constraint to growth. As discussed earlier, returns to education in Belize are low reflecting the low level of technical skills of the labor force. In addition, the country has traditionally had high unemployment rates reflecting a high reservation wage level for the local workforce which has led to the need to import labor through migration from neighboring countries. While there might be several factors at play that may help explain why the local workforce has such a high reservation wage, there are issues with the quality of education in the country that could be affecting the skills profile of the labor force and limiting the country's competitiveness and growth potential.

Belize has prioritized and invested more in education over the past few years, but the outcomes in terms of education access, quality, and equity have not improved as one would have expected. There is a clear evidence linking education to higher individual productivity and earnings (see, for example, Becker (1964); and Dogarawa (2011)). Furthermore, the literature establishes a causal link between investment in education and wages paid in the labor market (Mincer (1974)), as well as evidence that educated people are

less vulnerable to preventable diseases, economic fluctuations, more responsive to social issues, and less prone to engage in criminal activities (Dowd and Aiello (2009); Carneiro et al. (2005); Groot and Brink (2010)). As discussed in Naslund-Hadley et al. (2013), in Belize formal education begins to pay off with the completion of secondary education. In addition, there is a high payoff associated with vocational education (relative to secondary) which is consistent with findings that the labor market in Belize needs skilled labor in the areas in which the country is doing well such as tourism (Arcia (2012)). However, the evidence shows that only 45 percent of secondary school-aged children attend school, substantially below the regional average of 80 percent. The proportion of trained teachers at the secondary level is also particularly low in Belize. In addition, access and equity outcomes are sub-par with preschool, secondary, and higher education having yet to reach the lowest income quintiles while attendance at the primary level has actually been on the decline.

The country's vulnerability to climate change and natural hazards also has a bearing on the quality of its infrastructure and stock of capital. The long-lying coastal areas are especially vulnerable to more intense and frequent tropical storms and hurricanes, flood damage, and rising sea levels. Like the rest of the Caribbean, Belize has experienced frequent natural disasters of catastrophic proportions, and recently suffered the impact of a Category 1 hurricane (Richard in October 2010) and widespread flooding in 2008. Tropical Storm Arthur (May 2008) caused extensive damage to infrastructure and the agriculture sector. Hurricanes Keith (2000) and Iris (2001) each causing damage reaching 45 percent and 25 percent of GDP, respectively. In 1961, Hurricane Hattie destroyed Belize City and prompted the Government to build a new administrative capital 50 miles inland in Belmopan. Evidence presented in chapter 4 shows how vulnerable the energy transmission lines are to strong winds. A single major weather event can leave and has left significant parts of the country isolated due to power failures and flooded roads.

Lack of competition and stability issues in the financial sector are important factors that have been identified as constraints to growth in Belize. The lack of stability in the sector has effected financial intermediation, inhibiting economic growth in Belize. A healthy financial sector can generate a number of positive spillovers to the rest of the economy: it

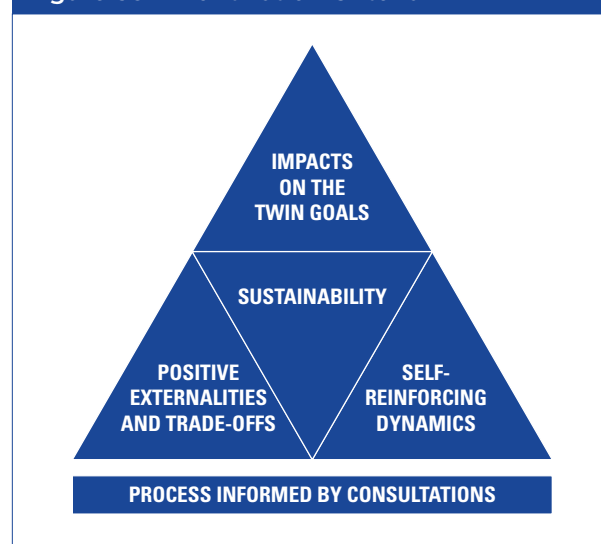
mobilizes savings, promotes greater information sharing, improves and expands resource allocation and facilitates diversification of management of risks (IMF (2015)). Sustainable financing of the economy and greater financial stability can be achieved by sound regulation, ensuring high capital requirements for systemically important banks, improving banks' resolvability and fine-tuning the use of countercyclical measures. As these measures are strengthened, access to finance can benefit from the better quality and cost of service that individuals and businesses can receive from the financial institutions. The lack of stability within the sector has hampered market efficiency in Belize which is evident by: the temporary unwillingness to accept term deposits by some financial institutions, higher interest rate spreads, and the underdevelopment of short term financial instruments to a shortage of long term financing options. Such evidence suggests the need for immediate financial sector reforms to tackle the current vulnerabilities effecting financial stability that could benefit and support a more robust foundation for wider, safer, and more efficient access to finance to support Belize's economic growth.

Prioritization Approach

The approach adopted in this SCD aimed at identifying areas in need of a big push to accelerate progress towards sustainable growth and boosting shared prosperity. The exercise used to identify these areas was firmly anchored on a number of explicit criteria (Figure 59). First, the extent to which improvements in a given area would have substantial impacts on the twin goals. For example, the analysis in chapters 2, 3, and 4 explicitly considered how each of the topics discussed affected the most vulnerable. Second, for a small state facing problems of scale, it is important to take into account positive externalities and the trade-offs associated with any proposed intervention. In that sense, this SCD has used the existence of complementarity effects and trade-offs as a criterion to identify the areas in need of greater attention. Third, given the observed stop-go pattern of growth in Belize and the country's heightened volatility to exogenous shocks and exposure to natural hazards, sustainability has been an important criterion helping to define priority areas of focus. Finally, an additional factor included the existence of self-reinforcing dynamics, which helped to introduce more granularity

in the choice of areas and allowed the consideration of important nuances in the prioritization exercise. In practice, the approach followed three key considerations, as follows.

Figure 59: Prioritization Criteria



First, given that the analysis suggested the existence of recurrent binding constraints to growth, reforms that could help break existing vicious circles were identified as areas of attention. In that context, building on the existing strengths and comparative advantages of the country was also considered here. The basis for this emphasis stems from taking into account areas that complement progress in other areas. This led to the identification of three areas where policy levers could help address existing vicious circles: (a) improving education and skills; (b) addressing crime and violence; and (c) increasing resilience to climate change and natural disasters.

Second, the need for institutional reform was considered a *sine qua non* condition for progress in other areas that could unleash a virtuous cycle of sustainable growth and greater inclusion. A few areas that emerged during the stakeholder consultations that would be in need of institutional reform included the taxation system (which is deemed inefficient and unfair), trade policy (which is believed to be biased against exports), the efficiency of public spending (which tends to be high and does not translate in the delivery public services of good quality), and the ethics and performance of public servants (where many

thought there was margin for improvement), among others. A broader focus on improving the role of the government in the economy could help spur improvements in competitiveness and increase the country's capacity to save and invest more.

Third, consideration was given also to structural issues that cut across and would complement progress in different areas. In some cases, progress would be greatly enhanced if some structural changes could be enacted. By their very nature, those changes would have a broad impact on a number of areas. This led to the identification of the importance of improving the quality and availability of data to inform evidence-based policy making, promoting greater financial inclusion, and safeguarding the country's fiscal sustainability given its potential impact on debt sustainability, output volatility, ability to provide quality public services, existence of fiscal space to maintain and restore physical infrastructure, for example (Figure 60).

The identified priorities were also informed by extensive consultations with stakeholders in the country. In terms of process, this SCD has drawn on existing background analysis and information that have helped identify key constraints to economic growth, inclusion, and sustainability, and has undertaken consultations with government officials, civil society, private sector and academia as well as in the donor community. The Government sees close synergies between the SCD and Belize's National Development Plan (Horizon 2030).

Improving Education and Skills

Improving education and skills would positively impact growth, inclusion, and sustainability, and these positive impacts would be reinforced by the adoption of an appropriate migration policy. Higher learning outcomes, greater equity and access to education would better equip the youth for the acquisition of skills demanded by the domestic labor markets and position them well to compete for better-paying jobs if they decide to emigrate. A more educated and skilled workforce would attract a more rewarding return to schooling and could help reduce the high reservation wage levels exhibited by Belizeans thus contributing to reduce the natural rate of unemployment and lowering the costs associated with the provision of

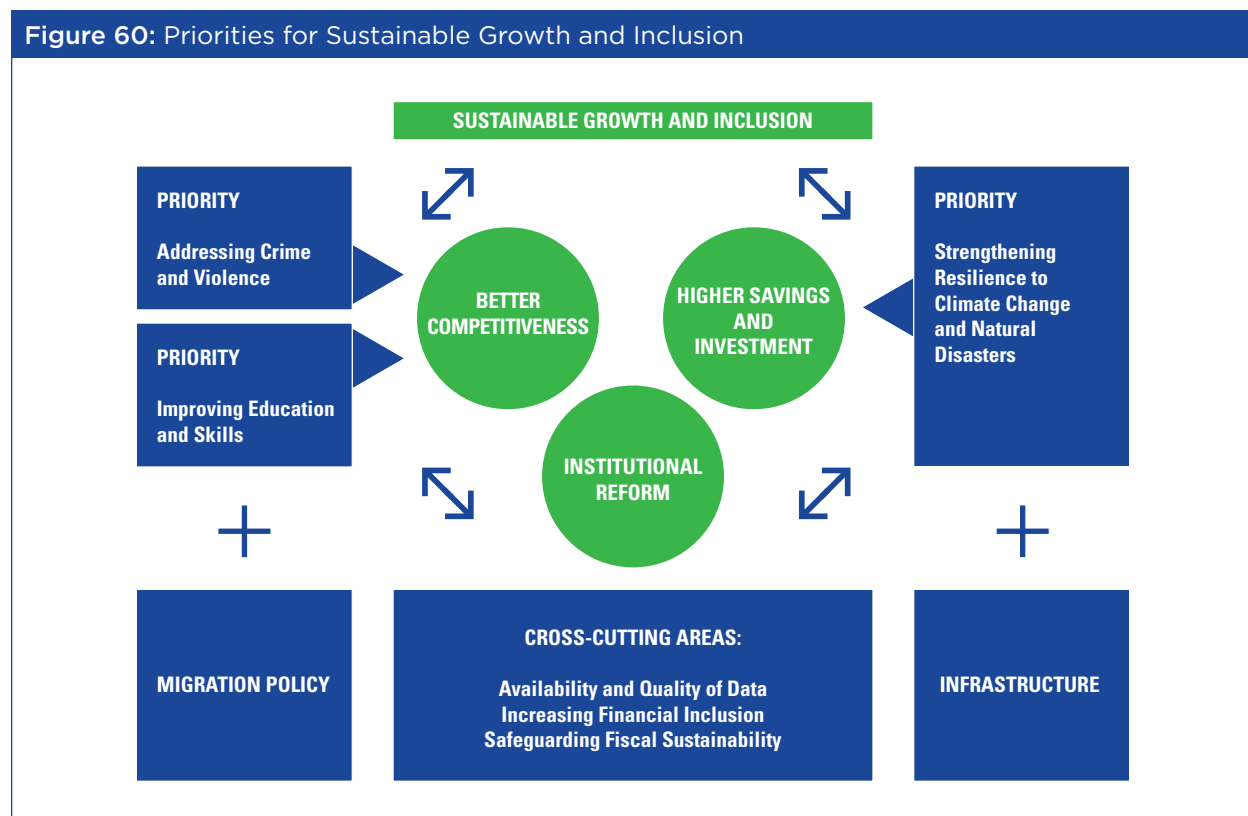
social protection. In addition, an appropriate migration policy would ensure that the incoming migrants could fill the positions that many Belizeans, particularly young Belizeans, are unwilling to fill. What is certain is that a better educated labor force would have a significant impact on poverty reduction, especially if education outcomes are significantly improved at the secondary level, besides helping to develop greater backward and forward linkages in the economy, as discussed in chapter 4. Education is also a key building block for other priorities, in particular reducing crime and violence, and helping keep educated Belizeans in the country.

The entry points to improve education and skills have been amply studied and discussed. They include greater attention to pre-school education, ensuring primary and secondary education access for all children, improving teacher training, establishing quality assurance and accountability mechanisms to increase learning and improve efficiency, and expanding and tailoring existing vocational and training institutions to respond to the needs of the market, including training of migrants.

Addressing Crime and Violence

Recent research has underscored the importance of core policies and innovative approaches to deal with youth violence in LAC. Core policies are those that focus on the first five years of life of the child, keeping children in school, identifying at-risk youth who need remedial support, tailoring reproductive health services to the specific needs of young people, using the media to educate young people, and promoting effective parenting. Innovative approaches focus on developing education equivalency programs, job training, and financial incentives for youth (Cunningham et al. (2008)). In addition, the literature on crime and social interactions suggest investing in safe neighborhood programs with a strong police presence, fostering good police-community relations, reducing the availability and use of firearms and providing rehabilitation and second chance opportunities for young offenders (Carneiro et al. (2005)).

It is also important to complement such efforts with measures to strengthen violence prevention and law enforcement. Crime and violence are on the rise in



Belize and represent a growing concern for the society given their associated high social and economic costs. The homicide rates in the country are amongst the highest in the world; at 41 per 100,000 it is more than five times the world average. Impunity is also very high with only 10% of homicide cases resulting in a conviction. Significantly lower levels of crime and violence would impact economic growth positively and improve inclusion and sustainability in addition to having positive impacts on the twin goals as the bottom 40 percent are the most vulnerable to exposed to crime and violence.

Addressing crime and violence would complement progress in other priority areas with positive spillovers on competitiveness and ultimately growth.

The links with education and skills is obvious as a self-reinforcing effect could lead to better inclusion. In the short to medium-term, there are entry points around creating income and learning opportunities to steer the youth away from joining criminal organizations, creating a safer environment for learning, and ultimately contributing to raise the skills profile of the labor force with expected positive spillovers on competitiveness

and growth. Finally, it is essential to preserve the youth and avoid their exposure to crime, which in Belize is extremely high (at 99% percent) and is believed to be an important risk factor for the perpetration of violence.

Strengthening Resilience to Climate Change and Natural Disasters

Belize has made great strides to increase environmental resilience but this remains an important priority which will require attention to the country's infrastructure. Belize is one of the countries in the world which is most affected by weather-related events and other natural hazards. Combined, Belize incurs annual losses of close to 3% of GDP due to natural disasters. These losses add to fiscal pressures and constrain wealth accumulation. Climate change is expected to increase the frequency and intensity of weather-related events. In this context, it is essential to continue to make progress in moving from a reactive to a preventive approach to disaster risk management since this will help reduce social and economic costs of disasters. This will require constant attention to repair

and strengthen existing road and energy infrastructure which remain extremely vulnerable to extreme weather events and can impose severe losses to livelihoods and economic activity.

Disaster risk management investments (DRM) in Belize are critical to support the twin goals to end extreme poverty and promote shared prosperity in poorer segments of society. Poor communities are disproportionately vulnerable to economic shocks and reduced mobility – particularly the minority groups in the southern and northern parts of the country. The vulnerability in the road networks, due to the lack of redundancy results in agricultural communities unable to access the larger markets in Belize City and Belmopan, students unable to attend schools, and goods not able to make it into rural communities. Investing in disaster risk management will help to protect the limited assets of poor communities from natural disasters and climate change related events and to improve the access and the economic livelihoods of poor and vulnerable communities.

In addition, DRM investments along the transportation network would limit the loss of economic output, improve productivity and reduce travel time by improving road conditions and reducing traffic interruptions caused by extreme rain events. When the likelihood of damage to transportation networks is reduced, economic activity can more quickly return to normal levels. Examples from World Bank projects indicate that DRM investments would have the sizable economic benefits. For example in the Belize Climate Resilient Infrastructure Project: the Economic Internal Rate of Return (EIRR) of a sub-project, for a 1 in 50 year rainfall event, ranges from 23% to 26% with different climate scenarios. Using a discount rate of 12%, the Net Present Value (NPV) ranges from US\$25.7 to US\$35.1 million for an initial investment of US\$13.0 million.

Cross-Cutting Areas

Availability and Quality of Data

The quality and availability of data can influence a country's competitiveness and the efficiency of its government, and this is particularly important in Belize where there is a dearth of good quality

information. In a recent survey conducted by the World Bank,⁴⁵ Belize is identified alongside other 28 other countries as having a pronounced inadequacy or deprivation of poverty data. In order to become more efficient and obtain better results governments need good data. This is true from different angles and perspectives. Budget decisions and policy choices have long-term effects on a country's fiscal future and on the outcomes that the budget delivers for the country's citizens. These decisions and policy choices can lead to much better results if they are based on rigorous and reliable evidence that can enable the government to select, fund, and operate public programs more strategically. In the case of Belize, there are serious limitations in the quality and availability of social and economic information that prevents the governments and prospective investors to make more informed decisions. These limitations can affect the effectiveness of government policy and inhibit new businesses.

Increasing Financial Inclusion

The availability of financial services remains narrow; particularly to serve small and medium enterprises. Notably missing financing instruments in the local financial markets are: micro-financing, micro-insurance, leasing and factoring. The development of such instruments could support greater access to finance by small and medium enterprises and contribute to decreasing the identified credit gap of US\$1,141 million for this important market segment. Greater financial inclusion can also help raise savings and investments which would have a positive impact on growth and shared prosperity.

The creation of the National Bank of Belize (NBB) as an option against the lack of competition in the banking sector may not be the best solution. Operations began in September 2013 and the original mandate of the NBB was to offer mortgages for public servants to become first time home owners. Capitalization of the Bank started with BZ\$20 mi from the PetroCaribe fund. As of June 2015, NBB had approximately 1,100 clients with an extremely high demand. The bank offers below market rates for lending at approximately 8.73% (domestic banks lending rate

45 See Serajudin et al. (2015), "Data Deprivation: Another Deprivation to End", Policy Research Working Paper N. 7252, The World Bank, Washington, D.C.

ranged from 9.54% to 11.4% in March 2015). NPLs have already increased to nearly 9% during the first two years of operations and this suggests that the NBB needs to strengthen immediately its reserve management before losses start to increase. As of June 2015, they had future intentions to widen the offering of their financial services, akin to a commercial bank, by accepting retail deposits, wire transfers, bill payments, offering credit cards and other services. The Government of Belize should be mindful of the risks associated that development state banks pose to financial sector development. International experience has shown negative outcomes (i.e. economic, financial and social value) when state banks actively compete in the same space as commercial banks (see Martínez and Vicente (2012)) including crowding out of existing banks especially when lending at below-market rates. A better solution may be to promote greater stability in existing banks and foster the development of other instruments and products besides developing financial infrastructure.

Safeguarding Fiscal Sustainability

Sustainable progress towards the achievements of the twin goals of reducing poverty and boosting shared prosperity in Belize will also require prioritizing fiscal sustainability. As argued in chapter 4, public debt levels can increase substantially depending on the outcome of court decisions on the compensation payments for the nationalized utilities. While the government has made sensible provisions to face the costs of the arbitration, the final outcome could require additional funding which is hard to predict with precision at this point. In that context, Belize would do well in safeguarding fiscal sustainability by continuing to seek ways to strengthen its fiscal position and reduce its debt level as a share of GDP. As a small and largely open economy, Belize is exposed to large terms-of-trade shocks that can introduce output fluctuation and affect growth negatively. A sure way to mitigate against external shocks is by building fiscal buffers that could help the authorities to keep a counter-cyclical fiscal stance. While the short-to-medium term outlook for Belize remain broadly favorable, projects financed with PetroCaribe resources may become future fiscal liabilities. Continued efforts to promote fiscal consolidation would help create fiscal space to finance priority expenditures (on education and resilience, for example) and boost the income of the bottom 40% of the population.

Conclusion

Belize has all the means and the potential to boost shared prosperity in a sustainable way. To do so it can build on its strengths and comparative advantages, including making the most of its geographic location and cultural proximity to large nearby markets. While Belize has a relatively more diversified export basket than its average comparator country amongst the Caribbean and other small states, diversifying trade partners is a sure way to shield the economy from exogenous shocks and output volatility. Investment in the quality of education would help in different fronts, including reducing crime and violence, and creating the conditions to foster innovation with direct positive spillovers in Belize's competitiveness and capacity to generate better paying jobs outside of the public sector. Improving management of the country's natural resources and strengthening resilience with better infrastructure would help reduce vulnerability to natural hazards and contribute to sustainable development. The way forward will not be without obstacles, but lack of political resolve to make progress in addressing the most binding constraints to growth and inclusion will only make matters worse. The priorities identified in this systematic country diagnostic present a pathway towards sustainable growth, greater inclusion, and enhanced shared prosperity.



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ANNEXES

Annex 1: HRV Growth Diagnostics Framework and its application to Belize⁴⁶

Hausmann, Klinger and Wagner (2008) provide useful insights on practical elements for conducting a Growth Diagnostic. If a constraint is binding, then one or several of the following phenomena can be observed, depending on the type of evidence available:

1. The (shadow) price of the constraint is high;
2. Movements in the constraint should produce significant movements in the objective function;
3. Agents in the economy should be attempting to overcome or bypass the constraint, and these economic actions can be observed;
4. Agents less intensive in a binding constraint are more likely to survive and thrive and vice versa.

A Growth Diagnostic was carried out in Belize in 2007

(See Hausmann and Klinger (2007)). According to the authors access to finance was identified as the binding constraint to economic growth. In particular, they highlight low savings, low access to international finance, and an extremely high domestic cost of finance. These were linked to government led investment during expansion periods that induced public deficits, crowding out and increased the cost of finance. The following candidate constraints were rejected:

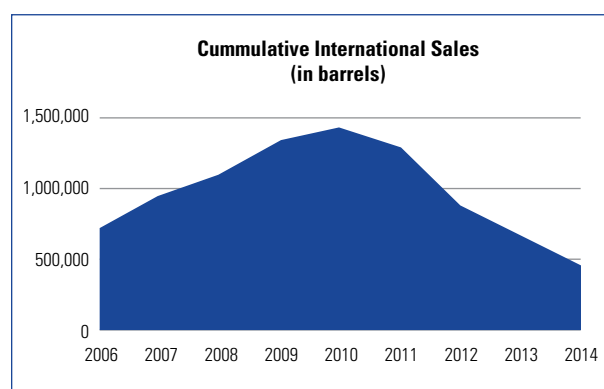
- Not Human Capital: Belize exhibits Low Returns to Education.
- Not Lack of Infrastructure: Belize shows little to no infrastructure congestion.
- No macro instability: The imbalances that led to past growth busts were corrected. But fiscal discipline (that affects savings) has been an issue.
- No government micro-failures: The business environment seemingly accurate for entrepreneurship.
- Self-discovery process not optimal, but affected by access / cost of finance.

⁴⁶ This annex draws on a Growth Diagnostics report for Yemen prepared by Leonardo Garrido and associates, based on a project commissioned the Department for International Development in 2014 (See Garrido, Hamid, and Salisbury (2014)) and from the seminal contribution of Hausmann, Rodrik and Velasco (2004).

An important caveat regarding the HRV Growth Diagnostic framework applied to Belize refers to the dynamic nature of the constraints. As some constraints are removed others become binding. Furthermore, any outstanding or emerging issue can turn into a binding constraint as a result of policy inaction, policy errors, or some external element. The implication of this observation is the need for continuous, evolving policymaking in order to adapt and tackle the most pressing issues at any point in time.

Annex 2: IFC's Industry Note on Belize's Oil Industry

Crude oil exports amounted to \$70.1 million in 2013, (11.5% of total exports), representing the largest share of exports and 4.3% of GDP. Since the major revamp of oil extraction in 2005, more than 90% of crude oil extracted was exported to international markets. However, since 2013 oil exports have been decreasing steadily due to falling prices, depletion of reserves and lack of new discoveries. In the last year oil exports fell by 23.4%, to \$11.8 million. According to EIU, oil output is expected to further decline in 2015-2016.



While the oil sector remains a major prospect for Belize to diversify sources of growth and revenues, future exploration developments are facing opposition on environmental grounds, in addition to the mentioned challenges with depleting reserves and a lack of new discoveries. Future exploration of off-shore oil production could create major growth opportunities, but also lead to challenges as it would likely impact biodiversity, the coral reef and eco-tourism.

Belize's history of oil exploration can be separated in two major periods, 1930s-2000 and post 2000. During the first period, 50 exploration wells were drilled, 34 onshore and 16 offshore. Companies granted exploration licenses included large oil companies like Shell, Texaco, Chevron as well as smaller companies like Occidental Petroleum and Philips Petroleum. None of the explored wells proved to be commercially viable.

In 2005, Belize Natural Energy Ltd. (BNE) made the first commercial discovery of petroleum in an area called Spanish Lookout in the Cayo District. This discovery was developed by BNE into Spanish Lookout Oilfield, producing an average of 1,700 barrels of oil per day. Another discovery was made in the Never Delay area, with crude oil of similar properties⁴⁷, producing 500 barrels of oil per day at its peak. Currently, there are 9 companies with exploration licenses that are carrying out drilling explorations with BNE being the only crude oil producer in the country.

Fiscal Regime

Currently, Belize has a hybrid fiscal regime, based on a combination of royalty/tax regime and production sharing regime. It incorporates both production revenues sharing with the government in addition to working interest in oilfields and a windfall profits tax. Producing companies pay 5 different forms of revenues to the government:

1. Royalty
2. 40% income tax
3. Government Production Share
4. Revenues from the Government's 10% working interest in oilfields
5. Petroleum Surcharge from windfall profits from high oil prices

In addition to these payments, producing companies pay additional annual licensing and rental fees, in addition to a transportation tax⁴⁸.

⁴⁷ Light crude with API (American Petroleum Industry gravity) of 40°

⁴⁸ Per barrel of oil transported on public highways

PETROLEUM COMPANIES OPERATING IN BELIZE							
EXPLORATION							
Company	Effective Date of PSA	Expiration Date of Exploration Period	Current Exploration Year	Current Work	Original Acreage	Current Acreage	Next Relinquishment Due
1. BelGeo	October 12, 2007	October 11, 2015	7	Acquiring 239.3 kms of 2D seismic	270,827.51	135,214.13	October 11, 2015
2. Maranco Energy	May 3, 2011	May 2, 2019	4	Conducting extended production testing under their Appraisal Program	378,656.47	396,357.05	May 21, 2015
3. New World Oil and Gas	October 12, 2007	October 11, 2005	7	Currently reviewing geological and geophysical data and evaluating results of Blue Creek #2. Blue Creek #2A & Rio Bravo #1 Exploration Wells. Seeking farmin partner to drill one well.	138,379.03	34,592.73	October 11, 2015
4. BCH/Pacific Rubiales	March 18, 2009	March 17, 2017	6	Evaluating results of 2013 2D seismic program	638,520.35	638,520.35	March 17, 2015
5. Perenco	May 22, 2012	May 21, 2020	3	Evaluating results of 2013 2D seismic program	390,246.69	390,426.69	May 21, 2016
6. Princess Petroleum	October 12, 2007	October 11, 2015	7	Planning aeromagnetic survey and/or seismic survey	2,013,909.02	1,006,213.20	October 11, 2015
7. Providence Energy	October 12, 2007	October 11, 2015	7	In negotiations with USCapital Energy for farmin for seismic survey	340,511.24	84,510.05	October 11, 2015
8. USCapital Energy/HUPECOL	January 22, 2008	January 21, 2016	7	Drilling first exploration well Temash #2	795,678.00	198,544.00	January 21, 2016
PRODUCTION							
9. Belize Natural Energy	January 2, 2003	January 1, 2011	In 25 year production period	Producing from the Spanish Lookout and Never Delay Oil Fields	593,272.00	21,537.85	—

Annex 3: IFC's Industry Note on Belize's Agriculture and Agribusiness

Agriculture accounts for 13% of Belize's GDP, 10.2% of its employment⁴⁹ and more than 2/3 of its exports.⁵⁰ 38% of Belize land areas is suitable for agriculture and 7% of that is currently utilized for farming.⁵¹ Traditionally Belize has grown commercial crops such as sugar and citrus fruits for export to Europe and the USA whereas food crops have been cultivated at a subsistence/ small scale for

local consumption. Mennonites (see Box 1) are the first players in large scale commercial food based agriculture and are at the forefront in food exports from Belize.

In 2013, Belize's biggest agricultural export products were the following:

- Marine products—\$56.2 million
- Sugar—\$53.7 million
- Citrus concentrate—\$53.3 million
- Bananas—\$44.24 million⁵²

As per the Govt. of Belize's National Food and Agricultural policy 2002-20, the focus will be on:

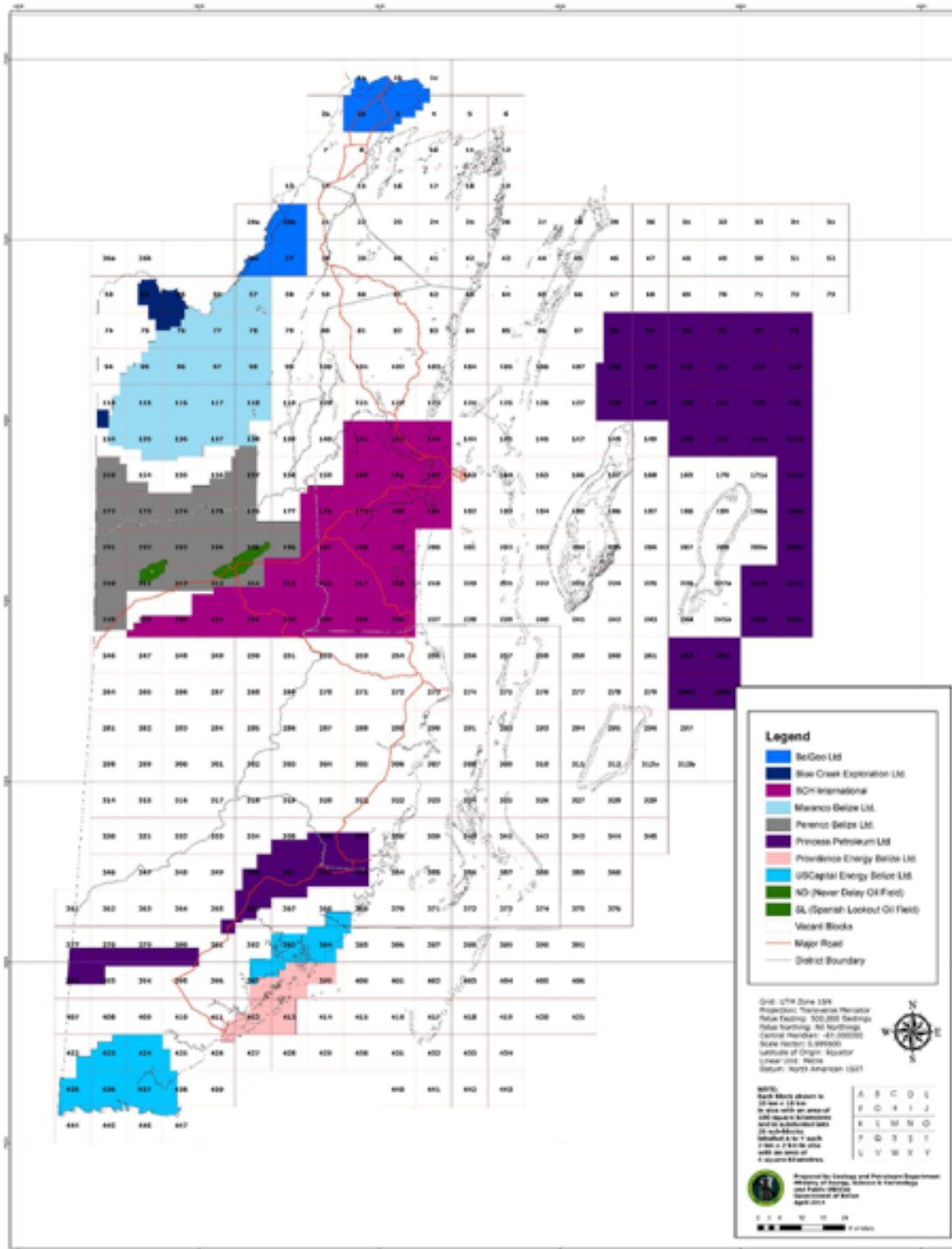
49 CIA Factbook, 2012, Statistical Institute of Belize

50 The Atlas of Economic Complexity, CID at Harvard University, <http://www.atlas.cid.harvard.edu>

51 World Bank, 2014

52 According to EIU data, at \$211.2 million, agricultural exports represented more than 34.1% of Belize's exports in 2013 and 13.2 % of GDP. This data differs from the data reported in Paragraph 1 as well as the COMTRADE data from 2012.

Belize Petroleum Contracts Map



Box 1: Mennonite community in Belize

In 1959, some 3,000 Mennonites moved to Belize, hoping to start a farming community. They signed a special agreement with the government that exempt them from military service and certain forms of taxation while giving them complete freedom to farm within their communities.

Since then the Mennonite community has grown in size and presence, expanding to areas of Corozal, Orange Walk and Cayo, in addition to original settlement by the River Hondo. Currently, the overall Mennonite community has around 10,000 members or 3% of the country's population. They keep expanding by buying more land to accommodate the aspirations of the young Mennonites and have started taking loans from commercial banks to ensure planned growth.

The Mennonites grow a significant amount Belize's food output and are critical for the country's food security. They have started attracting buyers from Trinidad & Tobago and Jamaica. Their principles include:

- o Common vision
- o Integrated and mixed farming system with collective approach to solving common challenges
- o Soil management and conservation in energy use and the environment
- o Wide skill base

In addition to strong agricultural skills, members of the progressive Mennonite community have an established network of production, transport and distribution of agricultural goods and beef cattle, mainly focusing on chicken, eggs, dairy, beans and fruit. They are vertically integrated in feed, storage and finished products. These goods are distributed locally, as well as for export.

accelerating the diversification of both local/export-oriented agriculture, promoting agro-processing and value adding as a means of expanding opportunities and increasing the income of the rural sector, actively promoting market/trade expansion both locally and internationally, increasing the efficiency, profitability and competitiveness of the sector, and improving and conserving the natural/productive resource base to ensure long-term sustainable productivity/ viability.

Belize also has potential in agri-business whereby its citrus fruit and livestock production can be converted to value added products for exports and use in its tourism sector. This has started with sauces and spices but can extend to jams, jellies, fruit juices and livestock products and go further up the value chain. This will require attracting international buyers, processors and growers to Belize.

The future growth of agriculture and agri processing in Belize will depend on the following:

- Trade policies in Europe where Belize sells most of its sugar due to preferential access

- Increase in commercial food farming on the lines of Mennonites. This will require
 - Inputs such a capital for land development , irrigation facilities
 - Availability of large land parcels without impinging on protected biodiversity areas
 - Opening of new export markets
- Transport, storage and logistic infrastructure for cash crops and processed products

The challenges for IFC to invest in this sector in Belize are the following:

- Competitiveness: At present Belize depends on preferential access until 2016 , e.g. sugar
- Lack of scale: Very few large scale players except the Mennonites
- Underutilization: Many fruit farms are not fully utilized, e.g. citrus, banana
- Limited FDI except ASR and Green Tropics in sugar sector. Concern over nationalizations , e.g. in power sector and telecom sector, by overseas investors
- Environmental concerns: some projects negatively impact the environment, e.g. sugar (land clearing) and aquaculture (disease)

Positive development

- Caribbean countries are exploring supplies from Belize, e.g. Trinidad & Tobago
- Regional agri business companies are coming to Belize to access the Central America market, e.g. Grace Kennedy of Jamaica
- Two large FDI in sugar sector in 2012, ASR of USA and Green Tropics from Guatemala/ Spain
- Diversification in non traditional crops such as papaya, hot peppers and cocoa
- Import substitution efforts, e.g. soybean production

Sector challenges

- Preferential access will lapse after 2016
- Natural disasters affect investment and output
- Data unavailability

Annex 4: IFC's Industry Note on Belize's Tourism Sector

Tourism is the most important industry in Belize, representing 21% of GDP and 28% of employment. In 2013, Belize received 294,000 tourists, a 6% increase from 2009. Recent growth has been driven by North America, with 70% of tourists arriving from the US and Canada. Average tourist expenditure per day has increased by 11% since 2009, totaling \$160 per day. Although the majority of tourists arrive by water, the amount of tourists arriving by land has increased by 18% in the same period.

Belize developed a National Sustainable Tourism Master Plan ("The Master Plan") in late 2011 that sets the tourism strategy and objectives through 2030. The Master Plan envisions a 3.8% CAGR increase in the tourism sector by 2030, with a focus on the overnight sector, which currently generates 80% of tourism revenue. The Master Plan has identified 6 tourism products upon which to structure the country's tourism offering: i) Cultural, ii) Nature-Based, iii) Sun & Beach, iv) Cruise, v) Nautical, and vi) Leisure & Entertainment. Implementation is expected to be driven by both the government and the private sector, with the government providing the necessary infrastructure and regulatory framework and the private sector bringing in investments.

According to the government, the overnight sector alone is currently growing at a 9% rate. When taking all

sectors into account, the government expects that the tourism industry could grow by 43% CAGR by 2030.

On the private sector side, investments are currently happening in the development of cruise tourism and accommodations. For the cruise segment, 2 new ports are being envisioned: one is a private port facility in the south for a major cruise line and the other a docking facility in Belize district where cruise ships come into port. Belize currently has a tendering port and would need a docking facility to ensure greater disembarkation. A bill has already been passed to enable the docking facility and another one is expected to facilitate the private port facility.

On the accommodations front, the number of tourism establishments in Belize have increased by 4% since 2009 to 757. The government estimates that there are 600 hotels currently, with an average size of 10-12 rooms. Most consist of boutique properties, offering an intimate environment but fall on the high end in terms of cost. 60% of accommodations are owned by local investment 40% are owned by expatriates. This model has allowed Belize's tourism sector to grow at a more sustainable rate compared to Mexico and Guatemala, who chose properties with higher room capacity. The boutique model has allowed Belize to build on the SME value chain and grow gradually, reflecting the country's past priorities.

There has been little infiltration from major hotel chains, with the Radisson in Belize City being the only exception. According to the government, the lack of infiltration by major hotel chains is due to the saturation of physical planning assets. New destinations require proper planning from which to provide a hotel profile. Where there is space to move and grow, it will be possible to look at larger, higher end properties.

The Tourism Master Plan envisions a balancing of the smaller-scale, boutique model with flagship properties. Belize had not been able to attract flagship properties due to its risk profile, recent nationalizations, and non-conducive legislative framework. The legislative framework would require increased clarity in terms of how FDI is processed and evaluated to create a level playing field for both for FDI and local investment. The Master Plan recognizes that larger scale anchor accommodations are needed to target a certain desired market. The finalization of the Master Plan has been welcome from investors.

Beltraide, Belize's investment promotion agency, has facilitated investments in hotels worth US \$5 million in the past 5 years, mostly in boutique resorts with supporting amenities. There has been a lot of action in high-end investments and eco-lodges. Beltraide has seen most interest come from Americans, but also had an Italian Group proposing a major investment of \$500 million, which is currently going through the necessary environmental licensing procedures. A few strategic investors are also looking at luxury hotels. According to Beltraide, the investment pipeline is robust and full.

Private investment has also taken place on the keys: a private island was recently purchased by the Government of Mexico, which is now also going through the environmental licensing process. A luxury hotel line is also looking at another island off of Belize City and is going through the pre-feasibility process. It will then need to go through the environmental assessment process.

Market Expansion Issues:

70% of tourism arrivals in Belize have come from the US and Canada and this continues to be case. All major US airlines travel to Belize, which is part of its appeal and competitive advantage. Proximity is a key competitive factor for the country. There has been a concerted effort to diversify by looking at South and Central America for accessibility. The border crossing through Central America has become a new potential for generating more tourism arrivals. Land arrivals have been the fastest growing means of arrival in the past 5 years.

According to Beltraide, Guatemala has usually taken the bulk of Central American tourism. Belize wants to engage in this market. The agency feels that multi-regional destinations are the way forward to tap into the Central American region. There are issues of connectivity, accessibility of road infrastructure and the Spanish language. Tapping into this market would require substantial investment. Belize has not tapped into the South American market yet. They are beginning to look at this potential by examining visa requirements.

Belize has also done little to tap into the European market. The country does not have European carriers with direct service or same day connections, creating challenges. It has also done little to incentivize travel.

Costa Rica is Belize's primary competitor, followed by Guatemala. Panama also competes with Belize in terms of its progressive product lines. Beltraide is having conversations about the opening up of Cuba, trying to assess how it will affect Belize as destination.

Employment in the Tourism Sector:

Employment in the tourism sector has increased by 13% since 2010, employing 18,900 people, according to the World Tourism Organization. The Ministry of Tourism puts this figure higher, estimating that the sector employs 1 in 6 jobs in the country. Belize has seen growth in accommodations and tour and travel services within the country, with incremental increases in both sectors. Given past trends, there are opportunities for further employment growth. One limiting factor is that the true economic impact of tourism is not known because data collection is a challenge. According to the Ministry of Tourism, Belize's tourism numbers are conservative as they rely on the World Tourism Council, which rates Belize as route #8 in terms of employment growth.

The Ministry has mentioned that capacity in the tourism sector is an issue. A well-qualified work force is critical, but this capacity does not fall under work program of Ministry of Tourism. The Inter-American Development Bank (IDB) has traditionally supported tourism development in Belize and is currently involved in the Economic Development Council to look at the institutional arrangement to roll out the Master Plan.

Medical Tourism:

Belize has begun exploring the option of medical tourism due to its proximity to the US market and the affordability of the healthcare product it provides. Belize hired a consultant from Costa Rica to evaluate what it has to offer in this niche and where it can improve. Its strategy is to learn from those that are doing it well is first (i.e Costa Rica), and then differentiate.

Challenges to developing this sector are legislation, liability insurance and accredited medical facilities. Incentive programs for participation of local practitioners are all in proposal stages with the Ministry of health. Beltraide is currently trying to finalize an executive paper in order to proceed with a broader action plan with Ministry of Health. It is currently facing

some constraints in its readiness to promote and develop this sector, but it sees potential.

Sources:

World Tourism Organization (2014), Compendium of Tourism Statistics UNWTO, data updated 20/11/2014

Interviews with Tourism CEO, Chief Tourism Officer at Ministry of Tourism and Beltraide

