PD-ACB-968

USAID/BELIZE

POLICY AGENDA AND STRATEGY

1991-1995

BEST AVAILABLE

USAID/BELIZE

POLICY AGENDA AND STRATEGY

1991-1995

August 31, 1989

SUMMARY

The goal of USAID/Belize is to help the country achieve self-sustaining economic growth. USAID will continue to endorse the policy reforms, initiated over the past five years, that have resulted in considerable progress in monetary and fiscal matters and improved efficiency within the Belizean economy and brought the private sector into the mainstream of the country's growth. During the new CDSS period, policy initiatives will be taken to:

1. modernize and reform the Belizean tax system, and
2. protect Belize's environmental resources.

These policy thrusts will be supplemented by policy initiatives through projects designed to remove constraints to growth, particularly in the agricultural and tourism sectors.

Tax reform complements other reforms achieved over the past five years. The current tax system is antiquated. It relies heavily upon taxes on international trade which are widely recognized as damaging to efficient resource allocation. Other problems include a system of import duties that may not serve Belize's development interests, tax avoidance and myriad exemptions and exceptions. The Government of Belize (GOB) has requested assistance in developing a policy on tax reform.

Environmental protection is also a question of efficient resource allocation. Belize's natural resource base is the main determinant of its comparative advantage and the pillar of the country's dynamic sectors, particularly tourism and agriculture. Deterioration of the environmental base would shift resources away from those sectors. Also, environmental protection is related to tax reform since specific taxes and user fees may be useful in making those who use environmental resources bear the cost of maintaining them.

The policy dialogue over the next five years will differ from that of the past. With termination of the ESF program, USAID/Belize will no longer have the leverage that it once had. Persuasion and logic must play the role that cash transfers once played. Other leverage exists. USAID will focus its projects in the agricultural and tourism sectors, matching the priorities set by the GOB. USAID will continue its road projects, also a priority area for the GOB. By focusing projects on areas of interest to the GOB, USAID can hope to gain some leverage in helping the GOB meet its own stated goals.

The GOB has already shown interest in tax reform. Tax reform can have political appeal if it can be demonstrated that an efficient tax system can be designed which allows revenue to grow as the economy expands, without having to tinker with the rate structure every year. An efficient tax system can also improve upon the investment climate and provide some automatic stabilization over business cycles. Since the benefits of policies to protect the environment may be more difficult to see, leverage associated with A.I.D. projects will be directed mainly toward promotion of progressive policies on environmental matters.

Within its agriculture and tourism projects, USAID will directly address policies in such areas as application of land use and environmental standards, protection of forest and marine resources, integrated pest management, and public/private funding of tourism related infrastructure and social services.

POLICY PRIORITIES FOR BELIZE

It is the goal of USAID/Belize to assist the country to achieve self-sustaining economic growth in the long run. USAID's strategy is to help the Government of Belize (GOB) develop the capacity to rationally plan and manage its resources to effectively guide economic growth, while addressing key constraints to growth. The strategy, and that of the GOB, is based upon private sector activities, motivated by conditions and policies promoting efficient resource allocation.

1. PRINCIPLES OF POLICY FORMATION

Development policy in Belize, as elsewhere, should be as comprehensive as possible. Policy should be "macro" in character, setting the overall economic environment within which the country, or entire sectors operate. This is particularly important where growth is based upon private initiative. Primarily, policy should be designed to create the conditions under which private parties see and feel the economic incentives which promote efficient economic behavior. A secondary part of policy design is to identify and remove constraints that would normally block efficient economic behavior. Removal of constraints can only bear fruit if the overall conditions are appropriate. For this reason, USAID/Belize has in the past, and will continue to emphasize broad-based, macro-policies designed to create conditions appropriate to market-oriented economic growth. As a supplement to this, USAID will continue to support projects that have been identified to remove constraints standing in the way of progress.

2. BACKGROUND

Over the past five years, USAID has been instrumental in assisting the GOB in identifying and pursuing macro-economic policies that have not only relieved many of the economic problems facing the country, but have also resulted in considerable prosperity. The financial support and leverage of the ESF program has helped install monetary and fiscal policies that have worked so well they may be envied by other developing countries. USAID's influence has been instrumental in removing many of the economic distortions plaguing the Belizean private sector, and A.I.D.-assisted projects have significantly reduced the constraints to economic progress. Results have come in the form of budgetary balance, monetary stability, export growth and diversification and a growing economy.

USAID can no longer offer ESF cash transfers as inducements to change, but continues to address policy performance through dialogue and project assistance. Even with past success, USAID found that cash transfers are not absolutely persuasive. An example is the import license list. When convinced that the number of items subject to import licenses should be reduced, the GOB began paring the list, even before completion of ESF negotiations which made reductions a condition for transfer of funds. However, when further reduction became politically untenable, the process stalled and USAID was forced to revise the conditions. With the benefit of a study on development concessions, we were able to negotiate steps to standardize concessions as a new condition. USAID is optimistic that continued dialogue, even without ESF conditionality, will lead to further reduction of the import license list, as well as elimination of remaining commodity price controls when the GOB finds such measures politically feasible.

USAID's projects are also achieving other policy results. The Livestock Development Project has helped the Ministry of Agriculture (MOA) establish an effective Policy Analysis Unit which is developing policies that encourage private sector investment in agriculture. Conversion of the Belize Marketing Board into a price stabilization entity, leaving marketing of basic grains to the private sector, is moving forward with technical assistance under the Toledo Agricultural Marketing Project. At MOA request, the project advisor has prepared a detailed implementation plan and time table for implementing grain price stabilization, presented in August 1989. To protect the environment and public health, project assistance has helped the MOA to institute a Pesticides Control Board and begin procuring equipment for residue testing in foods and feeds.

3. POLICY AGENDA AND STRATEGY

Despite Belize's good policy performance over the past five years, some problems remain:

First, recent growth has been led by significant export expansion and diversification, but the expansion and diversification that has occurred is not secure. The four main exports -- sugar, garments, citrus and bananas --all rely upon trade preferences offered by either the U.S or U.K. Major changes in these preferences could severely affect Belize's export performance. Only tourism is based, in a non-preferential way, upon Belize's international comparative advantage. Thus, one cannot assume that because Belize has grown well in the past four years, that growth is now self-sustaining. Therefore, policy should continue to focus on the macro conditions that are conducive to long-term, diversified growth. Such policies would serve Belize well should

the current engines of growth falter, and should they persist, they will be stimulated by an ever more favorable economic climate.

Second, significant economic distortions remain, mainly associated with tariffs and other taxes on trade, but also stemming from the administrative controls on trade that have not yet been removed. Removal of these distortions is no small matter since over 60% of Belize's tax revenue is generated by these taxes. Yet, without their removal, Belize can make little progress in developing efficient, market-based economic activities.

Third, environmental deterioration could threaten Belize's growth. Tourism is expected to continue to grow rapidly, but this expectation is based upon the assumption that the things that attract tourists to Belize will remain as they are. Uncontrolled settlement of Belize's interior and exploitation of its fishery also threaten the long-run production that is expected to be based on these resources. How Belize employs its unique environmental endowment is a major question for the country's efficient resource allocation.

In choosing its policy agenda and strategy for the next five years, USAID/Belize faces a substantially different task than the one facing the framers of A.I.D. policy in the last CDSS period. In 1984 USAID could count on the considerable leverage offered by the ESF program to influence policy reform that the GOB might otherwise be slow to adopt. Now USAID must identify a policy position which can best be influenced by persuasion and logic, yet choose policy areas that are of significant importance in achieving the overall policy goal of self-sustained growth.

For these reasons USAID will focus on two major policy thrusts to be pursued over the next five years. These are:

1. modernization and reform of the Belizean tax system, and
2. protection of Belize's environmental resources.

These major policy initiatives will be supplemented with project specific policy initiatives selected to relieve constraints holding back progress for the Belizean economy in two priority sectors -- agriculture and tourism.

The GOB has expressed interest and requested assistance in both tax reform and environmental policy. It has also placed its own priorities on the promotion of agriculture and tourism, priorities with which USAID agrees. It is therefore felt that projects in agriculture and tourism can be used as leverage to achieve overall policy improvements in the tax system and in environmental policy. In addition, the project portfolio will

include technical assistance and training to help the GOB and private sector to analyze and design appropriate tax and environmental policies, and to build the organizational capacity to implement them. In the environmental policy area, USAID also expects to draw on expertise and support available under the Regional Environment and Natural Resource Management (RENARM) Project.

4. MODERNIZATION AND REFORM OF THE BELIZEAN TAX SYSTEM

Why focus on the tax system? Over the past five years, USAID/Belize has consistently supported macro policies designed to reform Belize's fiscal and monetary system and create an environment that promotes economic growth based on private sector initiative. Many of the hoped-for policies have been put in place and those that have not are still moving toward their targets. USAID continues to support the GOB and the private sector in pursuing the policies put in motion in the past few years. To do only this would show little initiative. There are still major barriers to efficiency in Belize, despite the successes of the past five years. Of the barriers to efficient, private-sector production, we have identified the tax system as the factor remaining which is both broadest and potentially most damaging. In addition, it is an area in which the GOB has requested assistance.

Over the past five years the proportional makeup of tax receipts of the central government were approximately:

Income taxes	22%
Property taxes	1.5%
Taxes on goods and services	13%
Taxes on international trade	61%

It is common that small countries at early stages of development rely heavily on taxes on trade, but as the fiscal systems of countries develop, taxes on trade fade in importance and other, more efficient taxes take their place. Compared to other countries at the same level of development, or compared to other Caribbean countries, Belize is much more dependent upon its taxes on trade.

The Belizean tax system was not planned, but evolved into its current form in a rather ad hoc manner. Import duties established by CARICOM were adopted by Belize when it became a member. The common external tariff (CET) of CARICOM was established to promote import substitution in the area. Duties are highest on finished consumer goods, lower on intermediate goods and lowest or non-existent on inputs and capital goods.

Belize has added two additional duties to the common external tariff. Because Belize's pre-existing duty rates were higher than the CET, Belize would have suffered a revenue loss had it not imposed additional duties. Thus, an import surcharge called a Revenue Replacement Duty (RRD), which varies depending on the item imported, was added. In addition a stamp tax (currently 12%) is levied.1/ In theory, the stamp tax is applicable to all goods of specified types no matter the origin. However, because the stamp tax applies to goods which are not produced in Belize, it amounts to an import surcharge. The effect of the stamp tax and the RRD is to raise the tariff equivalent of the combined taxes to rates considerably above those of the CET.2/

Taxes on trade are particularly distorting. Currently these taxes constitute over 60% of Belize's tax revenue, and that proportion may be rising. The main distortion arises because of the tariff structure. Since the structure of the CET places higher tariffs on final goods and lower tariffs on inputs, the level of effective protection is higher than the level of the nominal tariffs.

While important economic distortions are introduced into Belize because of the high taxes on imports, the distortions become aggravated by Belize's attempts to give duty exemptions as an investment incentive. Since duties are so high in Belize many investments, particularly for export production, look unattractive. To improve the attraction, Belize offers duty exemptions to some investors. In doing so, effective rates of protection for production in the domestic market are raised even higher than they would be under the standard tariff rates. The distortion is complicated by the "competition" of firms operating without concessions along with those that have concessions, both operating in the same market. The system of "development concessions" is an important issue in Belize precisely because of the high taxes on traded goods. If there were no taxes on imports, or if they were at modest levels, the granting of development concessions would be a minor issue.

For a tax/expenditure system to be non-inflationary, taxes should reduce expenditure by the parties being taxed by the same

---

1/ When first introduced, the stamp tax was 5% of the value of the item taxed. Since then it has been raised incrementally to the present 12%. The increases were motivated by a need to raise revenue, not because the stamp tax is considered a good tax.

2/ Members of CARICOM can add certain surcharges to the CET without violating their agreements. The CET was designed for protection not revenue, and members may add duties for revenue purposes. The distinction is economically irrelevant.

amount that public expenditures expand. In general, one would prefer taxes which do not have an adverse effect on production, and/or taxes which fall more on consumption than savings. In order of their adverse effect on production, taxes on trade come first. The order would be:

- taxes on trade,
- excise and sales taxes,
- income taxes,
- consumption taxes.

It is generally best to seek a small number of broad-based taxes rather than a large number of narrowly applied taxes. Not only is there a payoff in terms of economic efficiency, but a few broad-based taxes impose a much lighter administrative burden as well. Taxes on inputs (e.g., on imported inputs) are much more destructive of production than taxes on income; taxes on consumption are better yet, for they remove purchasing power at the same rate that the public sector gains purchasing power, without inserting a point of inefficiency into the production process.

Several important problems for tax reform exist in Belize.

1. A shift away from trade taxes risks a loss of revenue that Belize may not be willing to take. Belizean policy makers have worked hard to get the country's revenue/expenditure balance in order and would probably be unwilling to risk returning to the deficits and budget cutting of years recently past.

2. Tax administration is weak and will probably remain so. To some extent this can be overcome with technical assistance, but a more realistic solution lies in designing easily enforced, broad-based taxes. Nevertheless, poor administrative capabilities will remain a feature in Belize.

3. CARICOM will continue to be seen as an obstacle to tax reform.

Despite these problems there are possibilities for reform and it is certain that detailed research will reveal others. The income tax structure is being improved, but as yet little is being done to extend its coverage to more taxpayers. Indeed, the recent reforms imply a reduction in tax revenues in the short run. Several important kinds of consumption-based taxes have never been considered for application in Belize, such as the value-added tax or an expenditure tax. Property taxes seem to be very underused and more efficient sales taxes could easily be envisioned. User fees are not common in Belize and may play an

important role in connecting those who depend upon Belize's environmental resources, roads, ports, etc. with the services required to keep those resources intact. Finally, there may be important ways in which Belize can respect its agreements within CARICOM and still adjust its taxes on trade. Other CARICOM countries (e.g., Jamaica) are adjusting their import duty systems despite the CET. Also, in Belize, elimination of the stamp tax and RRD on trade would go a long way toward reducing the distortions due to trade taxes without changing the CET. Indeed, a great number of alternatives are available which have never been considered in detail, but which seem reasonable to consider in the Belizean case.

USAID/Belize will support a policy of tax reform over the next five years. The objective will be to move Belize from a tax system that came about for largely ad hoc reasons, to a system designed for economic efficiency. The policy will emphasize moving away from dependence on taxes on trade and movement toward taxes that are more neutral in their economic impact. In pursuing this policy USAID will continue to support the efforts of the GOB to maintain the fiscal and monetary discipline that they have achieved over the past five years. One of the main factors that allows us to now consider tax reform is that other, more pressing problems have already been attended to. Without the monetary and fiscal balance that now exists in the country, tax reform would achieve little.

The timing is particularly good for pursuing a policy of tax reform. No major crisis now exists and incremental change can be introduced in a non-disruptive setting. There are encouraging signs that policy makers are receptive to tax reform and have indeed sought A.I.D. assistance in this area. Policy makers are also particularly well placed to attempt change, for they have dealt successfully with the crises of the recent past and have brought an encouraging growth pattern to Belize. The series of events that may accompany a reasonable tax reform policy is as follows:

1989-90: Changes in the income tax were made in 1989 which will imply a decline in revenue for 1989 and 1990. Thus, one would not want to introduce other reforms until the importance of this revenue impact is seen. However, studies are required on the current tax system in Belize, and this period can be used for that purpose.

1990: This is a census year and USAID is helping Belize conduct an income and expenditure survey concurrent with the census. Normally, tax reform requires an income and expenditure survey as the basis for tax design. Since this survey is being done anyway,

little extra cost will be involved in obtaining the information for tax design. USAID will ensure that the income and expenditure survey solicits the information needed. The year will also be spent gaining familiarity with the tax reform experience of countries that are in some ways similar to Belize (eg. Jamaica, Dominica, Grenada), much of which will have some applicability to Belize. Finally, 1990 can be used to improve upon the administration of the income tax which was modified in 1989.

1991-92: Alternative tax systems for Belize will be designed and recommendations for reform made, taking advantage of the results of the income and expenditure survey of 1990.

1993-94: Introduce reforms. Obviously, the introduction and timing of reform will depend upon what reforms are recommended.

Without an ESF program and the leverage of cash transfers, persuasion and analysis must play the key role. Fortunately, policy makers in Belize seem receptive to modernizing their tax system. A.I.D. has received requests for technical assistance on tax reform. Since no apparent economic crisis currently afflicts the country, conditions are ideal for a gradual tax reform that does not overly threaten revenues. Some revenue protection can also be forthcoming from A.I.D.-funded efforts to privatize the financing of activities that have been paid for by the public sector. USAID's health care financing activity is an effort along these lines. Furthermore, it is likely that studies will indicate that sources of revenue can be found that are politically and economically less disruptive than the heavy taxes on trade and that security in the source of revenue will be a characteristic of reform that Belizean policy makers find attractive.

USAID involvement in a policy dialogue can use several points of departure. These include:

- Projects such as the health care financing activity can be offered as a means to relieve the pressure on current revenues as well as an example of getting recipients of services to "feel" the cost of the services. Projects of this type are like tax reform in that they are designed to improve upon efficiency by "getting the signals right". There may be some leverage associated with these projects as well since they can reduce some revenue concerns.

- Help in implementing the income tax changes of 1989. Comprehensive details on the impact of the current tax system can be developed during 1990.

- The 1990 income and expenditure survey design is already under way with A.I.D. support. Analyses of the income and expenditure survey can be used to analyze alternative tax systems for Belize and "test" the likely effects of implementing any of the alternatives. This could occur primarily during 1991.

- During 1991 and 1992 the Belizean Government can be brought into a dialogue about the advisability of alternatives once they are well specified. At this stage careful attention will be paid to Belize's revenue concerns and to the experience of other countries with tax reform.

5. PROTECTION OF BELIZE'S ENVIRONMENTAL RESOURCES

The environmental policy envisioned by USAID/Belize has objectives similiar to those sought by the tax reform policy. We have focused on tax reform largely because of the resource allocation improvements that may be made. For the same reason we focus on the protection of Belize's environmental resources. Furthermore, environmental policy is closely related to tax policy. Belize currently levies few user fees on those parties who may, by their economic activity, impose an environmental cost on Belizean society. In other countries, user fees and other forms of tax are often used for environmental protection. To the extent that they could be used in Belize, these taxes and fees should be integrated with a general overhaul of the Belizean tax system.

Belize is entering a stage of rapid development and exploitation of its rich and relatively untouched natural resource base. The challenge that it faces is not so much one of rehabilitating the environment, but of arresting the degradation that has begun, and of instituting sustainable development. Belize will need assistance if the environmental degradation, that has contributed to the poverty and political instability of its neighbors, is to be avoided. With support Belize can continue its development as one of the region's stable democracies.

Existing legislation leaves few gaps in the GOB's fisheries, forestry, and wildlife management authority. Yet, the impressive legislative program remains largely unimplemented. This is due partly to the lack of specific regulations and comprehensive plans for development. For example, the Forestry Department has authority for the protection and management of forests. Projects currently converting tropical forest to agriculture -- such as

citrus, cocoa, or livestock -- require permits from the Forestry Department to do so. Receiving a permit, however, is perfunctory. No requirement exists for a scientific review of the soil's capability to sustain agriculture, or of the availability and agricultural potential of already deforested land. This reflects the absence of a sustainable forestry management policy, because no national policies and management plans, nor for that matter overall land use strategy for the country has been developed. As another example, the Wildlife Protection Act of 1981 authorizes the Forestry Department to control hunting on public and private lands, but neither bag limits or closed seasons exist, and studies determining sustainable levels of harvesting have not been done.

Belize does have a comprehensive set of pesticide regulations, but lacks specific laws dealing with air pollution, solid waste, hazardous waste, sewage, dredge-and-fill, or wetlands protection. Belize also lacks the equivalent of the U.S.'s National Environmental Protection Act (NEPA). Consequently, there is no requirement for Environmental Assessments of development activities to be done. The accelerating rates of population growth and development are making it increasingly important to address these deficiences.

Even when specific legislation does exist, the weakness of the responsible GOB agencies leaves regulations unenforced. Conflict and unclear assignment of authority amongst agencies contributes to the problem. More fundamentally important is the lack of staff, the lack of training, and the lack of funds and equipment.

The Forestry Department has the administrative responsibility for forest reserves, national parks and other protected areas, and for wildlife management. But, the Department has only 5 professional foresters to manage a national forest estate of 13,000 km^2. It has no professional wildlife biologists. The Department's vehicles are old and of insufficient number for the guards to carry out their duties, and the operational budgets are inadequate to cover the costs of gasoline, repairs, or other needed equipment. Other GOB agencies responsible for environment and natural resources (E/NR) management, such as the Fisheries Department, face similar constraints in fulfilling their duties.

The major burden for conservation activities is borne by the private sector which is largely dependent on support from international and U.S. conservation NGO's. The Chief Forestry Officer has delegated the management of National Parks, monuments, reserves, and sanctuaries to the Belize Audubon Society (BAS). Complementary conservation efforts have come from the privately operated Belize Zoo, which has an active public awareness program. In addition, several private protected areas have been or are being developed. Programme for Belize (PFB),

the most significant private reserve effort, plans to expand its current 42,000 acre reserves to 152,000 acres. The reserve is promoting the development and implementation of multiple land uses that will provide jobs dependent on the preservation of the reserve's biological diversity.

Clearly Belize has an active indigenous conservation community drawing support from outside sources. NGO's, however, do not have the statutory authority or resources (their finances are at the subsistence level) for formulating and executing a sustainable national development plan. A major issue for the GOB is how to expand E/NR management initiatives given its human and fiscal resources.

In general the populace is concerned about environmental degradation, and appreciates the future's dependence on the natural resource base. Newspapers frequently carry articles on environmental issues, and public officials voice concern of impending E/NR degradation. Public awareness, however, needs to be increased. Also needed is training at all levels in the sustainable use of natural resources. The lack of this knowledge, combined with poverty and a rapidly growing population is causing increasingly apparent destructive exploitation. Particularly ominous is the burgeoning refugee population.

Some of the milestones that we can see in the pursuit of a policy to protect Belize's environmental resources include:

1990-91 Inventories of environmental needs and carrying capacity of important resources such as those supporting tourism, fishing, agriculture and timber. A Land Resource Survey, supported by the U.K.'s ODA, is scheduled for completion in 1991. A Tropical Forest Action Plan has been completed. The RENARM Project will begin with an inventory of environment policies and provide policy analysis resources.

1992-93 Tax reform and tax system design will include consideration of a system of user fees and/or taxes designed for environmental protection.

1993-94 Implementation. Some measures will probably be implementable separately from tax reform. Indeed, USAID is already active in institution building in the areas of agriculture, forestry, fisheries and tourism. Other measures will be part of tax reform and must be integrated with it.

The policy dialogue on environmental protection suffers from one of the same difficulties as the tax reform dialogue: a lack of

leverage on the part of A.I.D. Benefits from a program to protect Belize's environmental resources may be more difficult for GOB officials to "see", especially if they view user fees as an obstacle to the development of specific activities. Also, unlike with the tax system, GOB officials are not used to thinking in environmental terms. The need for revenue causes a continual focus on taxes and so tax problems are familiar. Environmental problems are not always evident and in many cases can be ignored, at least for a while. Thus, the policy dialogue on the environment will require a greater effort to build awareness than is required of the dialogue on taxes.

The number of possible interventions for environmental protection in Belize, as elsewhere, is very large. USAID must identify which areas of environmental concern are critical. From that, a series of project activities can be designed to promote effective environmental management. This design effort is currently underway, focused on agriculture, including forestry and fisheries, and tourism. This work will identify the specific key concerns that will eventually become the object of several projects. APPENDIX B discusses priority areas and planned project activities as outlined in our Mission Annex to the RENARM Project Paper.

In some cases, USAID has projects that may be used to exert leverage. When project-related leverage can be applied, it will be directed toward pursuing an environmental protection policy. It is our assessment that the awareness and interest that the GOB already possesses with respect to tax reform will induce them to pursue progressive policies in that area without the exertion of much leverage. The task of building an environmental policy is somewhat more difficult and something more than simple information may be needed.

One element of leverage is the roads program, the most tangible item planned by A.I.D. which could be held out as an incentive to the GOB for taking progressive steps on the environment. The GOB has stated its intention to build and upgrade the country's road network. Since roads, by their nature, have significant environmental implications, USAID expects the road projects to be a major vehicle for dialogue on the environment, in addition to whatever direct leverage they may provide.

Other than roads, USAID/Belize has chosen to focus its projects in the areas of tourism and agriculture. The reasons for this are several. First, these are the areas that the GOB has committed itself to as their highest priority interests. Thus, A.I.D. projects that help them pursue their own priorities should have more leverage than projects in other areas. Second, these two areas best reflect the likely sources of self-sustaining growth for Belize. Removal of constraints in these sectors is

therefore felt to have the greatest possible impact on near-term growth. Third, these are the two areas that would be most adversely affected by unfavorable environmental changes. Therefore, it is easy to link an interest in these areas, and projects aimed at them, to environmental concerns. Fourth, it is in these sectors where private sector activity and support is most active. Thus, it is felt that private sector support for environmental concerns, and the political support that it engenders, can be best developed by focusing on agriculture and tourism.

While the projects will be an indirect means of influencing policy decisions, they also include elements with direct policy impact. The planned Development Policy Planning and Management Project (505-0045) will support and strengthen GOB capacity in such areas as land use planning, design of environmental policies, tax reform and health care financing. Tourism Management (505-0044) will focus on planning and management of tourism growth, with attention both to resource allocations and protection of the natural and cultural environment. In the agriculture sector, the Natural Resource Management/Sustainable Agriculture Project (505-0043) will directly impact on a range of agriculture and environmental policies including pest management, land use planning and protection of forest and marine resources.

APPENDIX A

NOTES ON TAX BUOYANCY IN BELIZE

When beginning analyses of tax systems it is conventional to compare tax revenues from a given tax with the tax base for that tax. Normally this is done by calculating tax elasticities, which are the proportional rate at which tax revenues change relative to proportional change in the tax base, when tax rates and application are held constant. A tax elasticity of 1 indicates that the rate at which tax revenues change is the same as the rate at which the tax base changes. Numbers greater than one indicate that tax revenues change relatively faster than the tax base, and the number tells us how much faster. Numbers less than one indicate the opposite.

In general it is desirable to have total tax revenue which increases slightly faster than increases in its base. That is, elasticities overall should be slightly greater than one. Tax elasticities in the range of about 1.0 to 1.05 are fairly typical (but whether they are "good" or not depends on the circumstance). Total tax revenues that expand more slowly than the tax base fail to automatically generate revenues that are adequate to support public services, and are in continual need of rate adjustments or other tinkering. Tax revenues that expand too fast when their base expands take too much purchasing power from the economy when it is expanding and act as a brake. Perhaps more importantly, revenues that expand too fast can encourage public spending in excess of what is needed.

It is not possible now to calculate tax elasticities for Belize. A detailed study would be needed to separate out the effects of rate changes and other changes in application, from what would have happened in the absence of rate changes. Nevertheless we can calculate tax "buoyancies". Tax buoyancy is the rate at which tax revenues change relative to its base when all influences are combined, including rate changes. Overall tax figures and tax buoyancies for Belize are shown in the accompanying table. The figures are for the period 1984-88 and are in millions of current Belize dollars.

The table is revealing in two major ways. First, it shows that relative to total revenue, income taxes are generating relatively less revenue and trade taxes relatively more revenue over the period shown. In general, income taxes are considered "better" taxes than trade taxes and so this observation should raise some questions about the efficiency of the Belizean tax system. This "trend" will not likely turn around in the next few years since income tax rate reform in 1989 implies that revenue from income taxes will probably drop for a few years before they begin to increase again. Meanwhile, the stamp tax falling on imports has been raised from 10% to 12%, and tariffs have been raised (in fiscal 86/87) due to a CARICOM decision, so the proportion of trade taxes should increase. Second, while the buoyancy of income taxes is about what one would expect (ie. 1.02), the buoyancy of trade taxes with respect to national income is extremely high (2.06). Indeed, relative to its base,

imports, trade taxes have shown even higher buoyancy (2.19)[1] Because trade taxes are so buoyant and are such a large portion of total tax revenues, overall tax buoyancy is very high (1.65). These observations warn of an increasing importance of trade taxes in Belize - exactly the opposite of what one would want and expect in a country at Belize's stage of development.

---

[1] Some of this may be due to the removal of quantitative restrictions on trade which has occurred during the 1984-89 period. In 1984 many imports were prohibited and many more were subject to import licensing which was so strict as to be equivalent to prohibition. As a result smuggling was rife. One would expect that as quantitative restrictions are removed and the incentive for smuggling decreases, more imports come in through legal channels and are therefore caught in the import duty net.

There was also an import duty increase of 15% in 1986/87 due to decisions by CARICOM. Even if import duties were adjusted downward by this amount, total trade tax buoyancy with respect to imports would remain very high.

TABLE 1: MAJOR TAX RELATIONSHIPS IN BELIZE
MONETARY FIGURES IN MILLIONS OF CURRENT BELIZE DOLLARS

	1984	1988
NATIONAL INCOME	285.8	402
IMPORTS	219.6	303.8
TOTAL TAX REVENUE	81.8	136.6
INCOME TAXES	20.5	29
TRADE TAXES	47.6	87.5
PROPORTIONS OF TOTAL TAX		
INCOME TAXES	0.25	0.21
TRADE TAXES	0.58	0.64
BOUYANCY		
INCOME TAXES WRT NATIONAL INCOME		1.02
TRADE TAXES WRT NATIONAL INCOME		2.06
TOTAL TAX WRT NATIONAL INCOME		1.65
TRADE TAXES WRT IMPORTS		2.19

SOURCE: IMF, MAY 30, 1989. FIGURES FOR 1988 ARE ESTIMATES.

APPENDIX B

ENVIRONMENTAL POLICY RELATED PROJECT ACTIVITY

USAID/Belize's 1991-1995 CDSS established sustainable agriculture (including forestry and fisheries) and tourism as the two economic sectors for mission focus. They were selected because they have the greatest growth potential, but if allowed to grow unmanaged, pose the greatest threat to some of the most extensive tropical forests, coral reefs, and biological diversity left in Central America. Also Belize's agriculture and tourism sector depend directly on the country's environment and natural resource base.

1. Sustainable Agricultural Development

The mission is promoting a transition from "slash and burn" agriculture". It has been doing so principally through the Toledo Agricultural Marketing project (505-0016), the Accelerated Cocoa Production project (505-0023), and the Commercialization of Alternative Crops (CAC) project (505-0008). These projects are introducing new agricultural practices including agroforestry involving mostly fruit trees and cocoa. Increasing market access for the crops of these trees to make growing the trees economically attractive to small farmers, has also been an emphasis. The CAC is being amended, extending it to 1992, when a new project, Natural Resource Management/Sustainable Agriculture (NARSAG) project (505-0043), will begin. Both the amendment and the new project will continue addressing "slash and burn" agriculture. These projects will also include Integrated Pest Management (IPM), and Land Use Planning components.

The shift by small farmers to the production of vegetables and fruits for sale in U.S. markets, and the requirement for cosmetically perfect products, has increased the use of pesticides. The problems frequently accompanying pesticide use have occurred. The GOB Pesticide Regulation Board has developed stringent standards. But, as is the case throughout Central America, most small farmers are uninformed about the proper application, storage, transportation, and disposal of these chemicals. Therefore, the proper use and handling of pesticides, and the adoption by farmers of IPM techniques to minimize the use of these chemicals will be given increased attention by the Mission.

Agricultural expansion has great potential for increasing the economic well being of the country. Too often, though, land that cannot sustain agriculture is being cleared of its forests. Land use planning is needed. The land use capability studies now being conducted by the British Overseas Development Agency, and

the recently completed Tropical Forestry Action Plan will provide a framework. The Mission will assist the GOB in refining and synthesizing these studies for the development of a national land use strategy, and for the development of appropriate regulations and enforcement capabilities.

2. Production From Natural Forests

Belize's vast forest resources were once the country's economic mainstay. Despite a continued abundance of good export-quality hardwood, timber products now constitute less than 3% of the GDP. Government policies and the lack of an overall program for enhancing production are responsible for this decline. The CAC amendment and NARSAG will assist the GOB in developing and implementing a national forestry sector development plan. The proposed plan will cover land use planning, sustainable forest management, reforestation, sale of government timber, pricing policy, lumber and finished wood-product export development, and the development of markets for secondary hardwoods.

There are two principle incentives for increasing the forest sector's productivity. It has the potential for contributing substantially to the country's wealth. Increasing the forests' economic return will increase the GOB's and the citizenry's motivation for managing and conserving their forests. This is important for the many other benefits besides lumber that forests provide. Forest protection of watersheds sustains hydroelectric potential, maintains clean water for sanitation, and reduces rapid run off providing more water throughout the year for agriculture and industry. Clean rivers are also essential for the health of coral reefs and other coastal and marine resources. In addition Belize's forests provide the habitat for much of the country's rich biological diversity. It is this diversity plus the coral reefs of the country that are the major attraction for tourists.

It is because of the direct and indirect financial return, and the dependence of the country's biological diversity and growing tourism industry on forests, that forest management will be an important element in the Mission's program.

3. Management of Wildlands and Protection of Biological Diversity

The Mission is considering assisting the GOB in developing a "biosphere" type of land management plan, with the central preserve being in the Maya Mountains. The Mayas are the oldest mountains in the Western Hemisphere, and the site from which a number plant and animal species evolved and dispersed to the rest of the Americas. Large tracts of the region remain relatively untouched and are some of the best examples of Wet Tropical

Forest and associated biological diversity remaining in Central America. The region also contains the headwaters for all of the major rivers in the southern 2/3 of the country.

Included in the plan would be watershed and coastal zone management in a buffer zone that would extended the biosphere from the mountains to the sea. Through the CAC, NARSAG, and future projects the Mission would promote in the buffer zone, land use planning and forestry and agricultural activities compatible with the central preserves function. Because of USAID/Belize's limited budget, the Mission would look to outside funds to help develop local NGOs' and the GOB's capability to manage the central reserve.

The Mission's planned Tourism Management project (505-0044) will also address the preservation of wild areas and biological diversity. Technical assistance and training will be provided to strengthen the Ministry of Commerce, Industry and Tourism, the Department of Forestry, and other government agencies involved in managing and regulating the growth of the tourist industry. The purpose is to insure that the industry's growth conforms with appropriate land-use, environment, and resource conservation plans. This is particularly important for tourist development in close proximity to coral reefs. For, the disposal of untreated sewage, erosion, sand mining, anchor damage, and the collection of coral, associated with tourism has caused severe damage in other parts of the Caribbean to reef ecosystems and their rich biological diversity.

4. Management of Critical Watersheds

Belize has no hydroelectric facilities and is totally dependent on imported oil. The cost of oil, the vulnerability to increases in oil prices, and the loss of foreign exchange are all constraints to development. The Macal river on the Vaca Plateau, however, has considerable hydroelectric potential, and construction of a dam there is being considered. Development of watershed management capabilities will be required to protect the river's hydroelectric potential. The Mission will address this in the national land use planning support being provided to the GOB. The Macal river's watershed is composed of slopes of the Maya Mountains and Mountain Pine Ridge, therefore, protection of the watershed might also be incorporated into the potential biosphere reserve in the area.

The Mission is also concerned about watershed management because of the numerous economic benefits of clean water. Most vulnerable for Belize at this time is the health of its marine resources. Increasing deforestation and the use of pesticides and other pollutants are having noticeable detrimental effects on water quality. Recently one of Belize's rivers was observed

carrying a one to two mile long plume of silt laden water into a reef area.

The Mission will address watershed management problems in its agricultural and forestry activities. Evidence indicates, though, that not all of Belize's growing coastal pollution problems arise from within the country. Most notably, waters heavily laden with silt and other pollutants are suspected of flowing from Honduras and Guatemala into Belize's coastal waters. Monitoring is needed to substantiate and regional cooperation to address this problem.