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BELIZE

ESF CONCEPTS PAPER

FY 1988-89 PROGRAM ASSISTANCE

USAID/BELIZE

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CONCEPTS PAPER FOR THE FY 1988-1989
ESF PROGRAM IN BELIZE

I. SUMMARY AND RECOMMENDATIONS

USAID/Belize recommends authorization of an Economic Support Fund Grant of \$3.1 million to Belize. The Grantee will be the Government of Belize (GOB) acting through the Ministry of Agriculture. The duration of the Grant will be FY 1988 through FY 1989.

II. PROGRAM SUMMARY

Previous ESF programs in Belize have focused upon achieving economic stability through ESF dollar cash transfers for balance of payments assistance. At the same time, public sector infrastructure investment, primarily in the agriculture sector, was greatly enhanced by the use of local currencies generated by these transfers. Further, it became possible, through the leverage obtained by those activities, to bring about a modest number of structural reforms.

This strategy was a direct result of USAID's emphasis on complying with the NBCCA report, in particular the attainment of the first economic goal of that report -- the achievement of financial stabilization which was brought about in Belize by the use of a strong balance of payments support program. To say that the previous strategy has worked well would be an understatement. Belize today has greatly improved its external accounts, leading to a substantially higher level of net international reserves of the GOB, and important structural reforms have been initiated, leading inevitably to what is proposed herein -- the attainment of goal two of the NBCCA Report, a series of badly needed policy and structural reforms, primarily in the key sector, agriculture. This then will be consistent with the Commission's strategy to "build the foundation for long-term economic growth by supporting improvements in economic policy and the infrastructure needed for efficient production and diversified exports."

III. BACKGROUND

The purpose of this Concepts Paper is to present an outline for the 1988-1989 ESF Program for Belize. At the outset it should be noted that the A.I.D. program for Belize faces a special problem. Given that the stretchout plan for the Central American Initiative is FY 1992, and given the time requirements for the PID-PP project design cycle, it has, at this late date, proved virtually impossible to realistically conceive of any long-term projects, even in the case of highly important sectors of the economy. Hence, it is appropriate that the ESF program increasingly

becomes the vehicle whereby we address Belize's continuing problems without incurring substantial project responsibilities beyond FY 1992. Of these continuing problems, the GOB and USAID's major concern is with the Agricultural Sector, with particular emphasis upon the structural policy reforms needed therein.

The focus of this ESF program is based upon and is harmonious with the Food and Agriculture Policy of the Government of Belize, as promulgated by the Ministry of Agriculture (Belmopan, 1986). That policy paper notes that "agriculture is the nation's basic industry and the most important sector of the national economy. Not only does agriculture supply the essential foodstuffs for all its (Belize's) citizens, but it represents the largest source of employment and the largest source of GDP. ... Agricultural products are the largest component of Belizean exports and as such contribute importantly to the nation's trade balance."

However, having noted the importance of agriculture -- and having identified crop diversification as essential to the strengthening of the sector -- one can extrapolate the constraints impeding crop diversification from that Policy Paper. These include -- import duties and taxes which raise the cost of production substantially, and price Belizean agricultural products out of the international market; a lack of infrastructure which would facilitate production, storage, and shipment of farm products; a lack of available long-term credit to small farmers; a lack of a strong network of farm cooperatives; and a continuing need for applied research and development of non-traditional crops, including improved uses of the waste products involved in sugar production.

With respect to the Fishery, the Policy Paper notes that "increased fishing pressure and environmental degradation make mandatory greater emphasis on protection, monitoring and enforcement of regulations to manage fisheries resources within the barrier reef and inshore waters. These waters are now being harvested at their maximum sustainable yield and no increase save for commercial mariculture is foreseen. Policies will be directed toward additional personnel to enforce regulations to prevent further over-exploitation."

Thus, constraints impeding further development of the Fishery include the lack of a Fishery Conservation Compliance Unit within the Ministry, a lack of equipment and personnel to ensure compliance, and a lack of research into new deep-water fishing techniques which could assist in the further diversification of the annual catch.

With respect to the Forestry Sector, the Progress Report of the Forestry Department, prepared for the Twelfth Commonwealth Forestry Conference, notes that "the (forestry) policy makes provision for the reservation of suitable forest lands in perpetuity, for the better protection of watersheds, catchment areas, drainage basins, steep hill slopes; for the prevention of erosion, the control of run-off, the regulation of stream

flow; and to ensure a continuous supply of timber and other forest products on government and private land. In addition, it recognises the need to maintain the forest low, to increase the value of timber and other forest produce growing on forest land, expand forest industries and to maintain an adequate number of trained technical and professional nationals to ensure that the requirement of the forestry policy are put into effect and maintained. The policy recognises the need to bring about an increased appreciation for the need and aims of forest conservation, and promotes the practice of forestry on private lands."

The principal forestry constraint has been a policy of non-utilization by the Government of this significant resource. It is estimated that only 5% of the available annual sustainable yield is being harvested. The opportunity to successfully intervene is an opportunity for forestry and conservation rarely found in the world today. Such an intervention could be made by Belize while at the same time complying fully with A.I.D.'s policy related to humid, tropical forests -- the long-term, sustained production of forest products without depleting, or loss of biological diversity. Indeed, increasing the taking of secondary hardwoods and limiting the extraction of mahogany and cedar, would effectively increase and diversify the annual yield while conserving the more expensive primary hardwoods.

In summary, the Agriculture Sector is Belize's single major industry, a sector which needs improved policy dialogue, and structural reform brought about with technical assistance, commodity support, training, etc. The ESF Program would go a long way towards resolving structural impediments to sustained economic growth and would encourage additional external assistance from other donors. In particular, the Governments of Japan and Korea, both Littoral states with enormous fishing industries of their own, as well as other members of the United Nations family, would be encouraged to assist in this overall effort. In addition, the Government of Great Britain has expressed interest in financing a major activity involving the utilization of non-hardwood resources located in the Mountain Pine Ridge area.

IV. RELATIONSHIP TO THE CDSS

The CDSS notes that "domestic food security and increased export earnings will come almost exclusively from the agricultural sector." Further, "the agricultural sector clearly holds the greatest potential for long-term economic growth in Belize." Although, the CDSS was prepared in the spring of 1984, USAID still regards these views to be valid, and improvements in the agricultural sector to be of the highest priority.

Further, with regard to crop diversification, the CDSS noted that "sugar can no longer be relied upon as the main pillar for export earnings." While noting that other agricultural products are potentially important, they suffer from constraints which have retarded development. However,

"markets for non-traditional exports must be found and concerted efforts made to capture them."

With regard to the Fishery, there was no shellfish crisis recognized in 1984, and hence no mention of a potential fishery activity in the CDSS. However, such a project was discussed during the AID/W review of USAID/Belize's FY 88/89 Action plan. Support for the project at that time was tempered by the realization that the A.I.D. project design cycle and routine implementation requirements would make project completion by FY 1992 chancy, at best.

In addition to the fishery, the CDSS makes no mention of the forestry. However, the Tropical Forest/Biological Diversity Annex to USAID/Belize FY 88/89 Action Plan makes the following points: (a) The contribution of Belize forests to the national economy needs to be increased; (b) a comprehensive National Forestry Development Plan should be developed by the GOB; (c) management plans for established forest reserves need to be developed and implemented; (d) representative areas of all natural vegetation types in Belize need to be protected, in order to assure the conservation of biological diversity; and (e) the management of private sector forests needs to be promoted and increased.

V. PUBLIC SECTOR IMPROVEMENTS CARRIED OUT IN BELIZE TO DATE

Since its inception, USAID has managed, through both ESF and Project Programs, to encourage the GOB to implement a number of important policy and structural changes. Policy changes already carried out include:

- (a) reduced public sector assistance to the Belize Electricity Board, the country's largest parastatal, through rate adjustments and improvements in its financial and management operations;
- (b) liberalization of foreign trade and domestic pricing policies, including the elimination of import prohibitions, the reduction of the number of commodities subject to import licenses and price controls and the simplification of the export licensing system;
- (c) development of a food grain commodity price stabilization program to be administered by the Belize Marketing Board;
- (d) privatization of the Banana Control Board and government divestment of its banana plantations;
- (e) restructuring and privatization of the National Abattoir in Ladyville (Belize Meats, Ltd.);
- (f) reorientation of the Ministry of Agriculture to agricultural diversification;

(g) establishment within the Ministry of Agriculture of a policy unit to analyze food and agriculture sector policy and economic issues and make recommendations to Government;

(h) strengthening the Ministry of Economic Development's capability to develop and manage the Public Sector Investment Program, coordinate donor assistance and improve coordination between Government Ministries. A part of that effort includes the creation of a fund for feasibility studies and policy studies on major interventions and obstacles to sustained economic growth.

For the most part, the structural reforms cited above were carried out under the ESF Economic Stabilization Program as well as through direct project assistance. However, there are no new additional projects contemplated under which further necessary structural and sectoral policy reforms could be carried out. Thus, while the Belize program is moving from economic stabilization to policy and structural reform, the major vehicle for carrying out such reform is, of necessity, the ESF Program.

VI. PROPOSED STRUCTURAL REFORMS

Summary

To date, the Government of Belize has been in agreement with USAID's proposals to modify Belizean policies which impede development. This program strongly reinforces a process already begun, and USAID is optimistic that the Belizean Government will continue to cooperate fully in the policy rationalization process.

Aside from greatly strengthening the Government's initial modest efforts toward crop diversification, this ESF Program would stimulate a review of GOB policy toward a further relaxation, or elimination of import duties and taxes upon farm machinery and farm inputs.

To date, the Government of Belize has not had the resources to implement a policy of fishery conservation. As a result, the conch industry is near collapse, the lobster industry about to enter the crisis stage, and overfishing on the reef an accepted fact. This program would establish a vigorous policy of fishery conservation.

Forestry in Belize offers the promise of being developed into a significant industry. Today, Belize only uses 5% of the annual sustainable forest yield. A substantial investment opportunity exists in forestry which, like fishery conservation, is being impeded by a lack of policy implementation which would be addressed through this ESF Program by assisting the GOB formulate a national development plan for this important sector.

VII. POLICIES WORKING AGAINST AGRICULTURAL DIVERSIFICATION

Of Belize's estimated 5.7 million acres of land, approximately 2.2 million acres, or nearly 50% are suitable for cultivation, but only about 15% of the total arable land is now being farmed. Expansion of cultivated area is not constrained by physical or legal barriers. More than one million acres of agricultural land is owned by the Government of Belize (GOB), an increasing amount of it with access to the national road network and available for development by farmers or businessmen, local or foreign, at reasonably low prices.

Of the 354,700 acres of land reported under cultivation, 73,600 acres (20%) are devoted to export crop production. Some 40,100 acres (about 12%) are devoted to basic food production for local consumption. The balance, an estimated 241,000 acres (68% of cultivated area) is in pasture to support cattle production.

Expanded crop production is limited primarily by market conditions. Sugar and banana production is directed mostly at protected markets in the U.S. and U.K., as Belizean production of these crops cannot compete with other producers at current and prospective world market prices. Citrus is more price-competitive given current strong world demand, but Belize faces strong competition from Brazil and others for increased shares of the world market.

Rice is produced both commercially and as a subsistence crop. Other main crops are corn, beans (black and red), sorghum and peanuts. These are produced mainly for home consumption by small- and medium-sized farmers for sale on local markets, although some peanut production is being processed into peanut butter for the domestic market. In general, yields are low resulting in high cost per unit. Some work on yield improvement has been conducted by the Caribbean Agricultural Research and Development Institute (CARDI) on corn and sorghum. Increases in the productivity of these crops would not only improve the incomes of small producers but could also improve the competitive position of the livestock industry.

As a result of these and other factors, agricultural production has remained concentrated in a narrow range of products. During the period of high commodity prices (through the late 1970's) this product mix offered substantial rewards to Belize. However, in the past several years agriculture has shown no real growth, due primarily to the decline in sugar. At present few products in the sector can compensate for a continuing decline in the sugar industry.

There is a clear need to broaden the base of economic activity. Given relatively abundant resources in agriculture, that sector can contribute through diversification into alternate crops. Agricultural diversification, however, will not occur spontaneously. There are serious policy and institutional constraints to diversification which include the following:

a. Government Policies. Some GOB policies are creating disincentives to diversifying agriculture. These include: (1) ceilings on domestic marketing margins which discourage development of a competitive marketing system for local produce, and may even favor wholesalers and retailers of imports over traders in local products; (2) granting of exclusive importing privileges to importers of animal feed, fertilizer, and chemicals for crop protection, which have increased costs for these agricultural inputs to artificially high levels; and, (3) an incentive application review process which must be streamlined to encourage greater investment.

b. Domestic Market Risk. The domestic market is small and easily oversupplied, which introduces risk in producing fresh fruits and vegetables, for which prices are highly sensitive to changes in supply. Processing for local consumption is limited by diseconomies of scale, and faces price competition from Mexican and U.S. imports. Internal marketing systems are not well organized and are geared primarily to imports. On-farm storage capacity, farm-to-market transport services, and market facilities for fresh produce are all deficient, increasing the risk of marketing losses.

c. Limited Infrastructure for Processing, Packaging, and Storage. Processing, packaging, and storage facilities are inadequate for many of the export crops being considered for this project. Therefore, facilities for transportation, processing, and local storage must be in place before initial shipments to foreign markets are possible. Belize has had little reason to date to erect infrastructure for seed-cleaning, produce packing, vegetable freezing, drying or cold storage.

d. High Costs of Production. Costs of production are high, not only due to low productivity as pointed out above, but also due to high prices of imported production inputs. The high cost of inputs can be traced first to import duties levied on machinery, fuel, and all agro-chemicals except fertilizer. These commodities are imported in relatively small quantities making volume discount less of a possibility than for larger countries. Because of the small size of the economy, many imports are distributed by a small number of wholesaler/retailers which tends to increase prices. Efforts to structure the economy so as to reduce costs of production, handling, distribution, processing, and export will need to parallel efforts to identify alternative crops which perform well under growing conditions in Belize.

Because of these constraints, cultivating non-traditional crops poses substantial risk to any farmer or investor. If Belize is to succeed in broadening its economic base, these risks of diversifying agricultural production must first be reduced.

The ESF Program will substantially reduce those risks in certain specific ways designed to directly impact on the market place. Of immediate impact would be the further reduction, or elimination, of import duties on farm vehicles and farm inputs. In some instances, the GOB has allowed some tariff reductions. For example, duties on farm vehicles may be reduced by 40%, on the basis that 60% of the time the vehicle is put to non-farming uses. However, the procedure by which import duties are reduced is so cumbersome (application to the Ministry of Agriculture, approval by the Ministry of Finance) that the small farmer usually does not even bother to apply. This program would change that policy by providing a fund which the GOB could use to offset reduced, or eliminated, duties on farm imports. In addition, the program would identify infrastructure needs within the country which would be complementary to the expanded farm-to-market road project now being undertaken by USAID.

With regard to private enterprise, the Ministry of Economic Development is presently reviewing the development concessions process to streamline and standardize the incentive system. The major beneficiary of a streamlined incentive system will be the agricultural sector considering the bulk of proposed new investments in Belize are agri-based. Technical assistance for the review is being provided the Ministry through ESF Grant funds. Compliance with appropriate recommendations of this review will be the subject of a separate Condition Precedent in the new ESF Program.

With respect to fisheries, the marine environment is of far greater importance, relative to Belize than it is to the great majority of the world's nations, involving as it does (1) extensive shallow, warm areas of sandy flats which support a varied and rich marine flora and fauna, many components of which are of substantial commercial and recreational value, (2) a long, rugged offshore reef of great underwater beauty, supporting other plant and animal populations of yet unproven commercial value but unquestioned recreational interest, and (3) two atolls with other valuable living populations. As indicated in the following table, export earnings from fish products in 1986 dropped by 28% from the 1985 level despite a 10% average increase in prices. Last year's fish exports were 14% lower than the 1982 value.

This marine region has provided Belize with vital food for its own population over the entire history of the nation. Statistics do not exist to measure the amount of fish consumed locally but there is no doubt that it constitutes a significant proportion of the food supply. It is essential that this source of food not disappear.

In the last three decades or so the fisheries have been the source of a significant proportion of the foreign exchange of Belize, through the export of lobster tails, and to a lesser, but significant extent, of conch and fish products. The value of these exports from 1982 through 1986 are shown below, compared with the values of the exports of the other three leading commodities.

EXPORTS OF MAJOR AGRICULTURE COMMODITIES
(in millions of Bze\$)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Sugar	65.7	68.3	65.1	45.9	62.5
Citrus products	14.1	13.7	19.5	24.2	23.2
Fishery products	12.5	13.9	13.4	15.0	10.8

There is strong evidence that the lobster industry is in jeopardy, and a certainty that the conch resource has been seriously over-exploited. The value of exports of these products has held up well in the past years but this was due in large part to increased prices in the overseas markets. Scalefish production may still expand if bottom-living stocks on the outer face of the reefs and surface-dwelling fish stocks in the open sea can be exploited economically.

Belize offers a better natural environment for fish and shellfish farming than most countries of the world, and there are encouraging signs that shrimp and perhaps other commercial farming will develop rapidly and profitably. Two large commercial shrimp farming ventures have begun production this year, and under its proposed Agricultural Credit Project the World Bank is considering supporting the funding of 200 acres of shrimp farms on a pilot scale, with more support possible if these farms are successful. Thus, Belize has a better chance than most countries of supplementing its "hunting culture" for the production of fish with a "farming culture" for some valuable fishery products.

The recreational and tourist potentials associated with the reefs and other parts of the marine environment, and the fishes that are associated with it, have scarcely been tapped, and expansion is possible here.

The fishery sector provides employment for a large number of people in Belize. The fisheries have made excellent use of cooperatives in organizing the industry, and there are 11 fishery cooperatives in the country, with perhaps 1,500 members; about an additional 500 persons engaged in fishing independently.

Both the marine environment and its living resources are highly perishable and subject to damage or even destruction. Unfortunately, damage is already evident to some parts of the environment and to some living stocks. Without the development of a conservation and management policy, and the creation of an effective mechanism to implement this policy, Belize faces degradation of essential resources and the loss of assets of great economic and social value.

To bring about this change the ESF Program will assist the GOB in improving its fishery conservation policies and help create a separate Fishery Conservation Compliance Unit within the Fishery Department. In

addition to providing equipment for this Compliance Unit, the existing plant will require renovation; some training should be carried out; a number of appropriate research and development activities should be undertaken, particularly with regard to the offshore fishery; and, credit programs should be arranged. In short, the program will establish a policy of rigorous fishery conservation and the rational use of resources.

With respect to forestry, land area officially classified as "forest land" in Belize amounts to about 8,233 square miles. This classification, however, includes open forests and grasslands with less than 10% stocking of trees as well as some land that was converted to milpa farming. Moreover, the Forest Department estimates that about 1/3 of the tropical hardwood forest is unproductive "low bush" or shows soil or water conditions in which management for timber would not be justified. Also, there is about 1,000 square miles of swamp and mangrove that should be protected from commercial exploitation.

Belize has about 4,310 square miles of closed forest -- that is, forest with a complete canopy -- and about 370 square miles of pine land. Some of the open forest also contains pine and could be productive under proper management. The major concentration of closed forest is in southern and western regions that have a very low human population density.

The closed hardwood forest in Belize contains an estimated 700 tree species. The most important species in the country, at least in historical perspective, is Honduras mahogany (Swietenia macrophylla) although several other species such as cedar and rosewood are also of high value. Mahogany was formerly the basis of the export trade and still is the principal species for export.

The hardwoods of the country are primarily of dense species, many with interlocked grain, some with silica in excess of 196 (which is very detrimental to saws and planer knives), and some with a wide range of colors. Although this large variety of species is often grouped as "secondary hardwoods", there is such a wide variety of wood properties that they cannot properly be treated as a single group. Of the 700 tree species in the country, perhaps several hundred reach sawlog size. Of these, only about 30-40 species have been studied well enough to understand the dimensional, strength, and finishing properties of their woods.

The extreme heterogeneity of the hardwood forests--no one species predominates over large areas--presents the major obstacle to forest industry development. The fact that this situation is typical of most tropical forests in the world does not ease the problem of developing a rational plan for development.

Based on an analysis by the Forestry Department and FAO, the annual growth of commercial species in Belize totals about 50 million cubic feet, while the present annual harvest amounts to less than two million cubic feet. Thus, to date, Belize is utilizing only some 5% of its exploitable forest resources.

In the case of forestry, the ESF Program will encourage the GOB to adopt a policy of rational use of forest resources. It will assist the GOB in formulating a national development plan for the forestry sector to cover forest management, conservation and reforestation policies, licensing regulations and wood export development, including stimulation of additional markets specializing in the use of secondary hardwoods. The existing forestry development plan was established during the 1950s.

VIII. PROGRAM DESCRIPTION

The \$3.1 million grant will be deposited into a separate account which will be managed under memos of understanding between both Governments. The FY 88 contribution to the separate account will be \$1.7 million; the FY 89 contribution will be \$1.4 million. The agriculture diversification -- fishery -- forestry inputs will be divided approximately 4:1:1. All inputs will become available only after specific Conditions Precedent are met.

IX. CONDITIONS PRECEDENT TO DISBURSEMENT

Aside from the standard Conditions Precedent, conditions would address the following requirements:

- that a special and separate local currency account be established for an amount equivalent to the fund to offset import duty reductions;
- that a Fishery Conservation Compliance Unit within the Fishery Department, Ministry of Agriculture be created and adequately staffed;.
- that changes in the laws pertaining to import duties and tariffs, indicating a reduction or elimination of such duties on farm vehicles and farm inputs, be effected..
- that the development concession process be streamlined in line with the recommendations of the review conducted by the Ministry of Economic Development;
- that a national development policy for the rational use, both public and private, of available public forest land in Belize be enacted..

X. ILLUSTRATIVE ESF PROGRAM BUDGET

The following line items are suggested to accomplish the program.

AGRICULTURAL DIVERSIFICATION

Import duties offset fund	\$1,500,000
Technical Assistance and Training (For cooperatives, tariff review, etc.)	<u>600,000</u>
Sub-total	\$2,100,000

FISHERY

Facilities, equipment, R&D, and Training for Compliance Unit	\$ 500,000
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FORESTRY

TA, Studies, etc., for Forestry Development Plan	<u>\$ 500,000</u>
Grand Total	\$3,100,000