**Additional Financing for George Price Highway Rehabilitation**

Technical Annex BL-L1029

Regional Integration

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| **Abstract**  Road transport is the leading mode of transportation for cargo and passengers in Belize. Despite the importance of road transport in the Belizean economy, the country faces major shortcomings in terms of coverage, quality, capacity and connectivity of their transport networks. Higher transportation and logistics costs resulting from poor transport infrastructure are barriers for the insertion of Belize’s products in global value chains as well as for the attraction of foreign investment. During the last years, the Bank has been supporting the Government of Belize in their efforts to improve the transport networks of the country (in particular the primary network); as a critical element to boost economic growth and regional and global integration. The additional inancing for George Price Highway Rehabilitation (BL-L1029) focuses on substantially improve the road connectivity within Belize’s main districts and with Central America by rehabilitating the George Price Highway (GPH) road.  The regional integration initiative for Mesoamerica, the Mesoamerican Project (PM), includes the GPH between Belmopan and Santa Elena as a segment of the International Network of Mesoamerican Highways (RICAM). The GPH provides vital access to Belize’s major inland tourism area, one of two land border crossings, the country’s entire petroleum industry, and a significant agricultural area. Investment in the rehabilitation of this GPH section will improve Belize’s connection with Guatemala and, thus, Central America and ensure a reliable link for years to come for Belize’s three primary export industries: tourism, agriculture, and petroleum, and will greatly support Belize’s increased participation on the global stage.  This document explains how the project supports the economic integration of Belize through improving the connectivity between export-oriented production areas and touristic areas and the primary road network of the country, as well as the access to the export and import infrastructure. According to the Results Matrix of the project, the improvement of the physical infrastructure of the GPH will have the following positive outcomes related to regional integration facilitation: (i) reduction in vehicles operating costs, and (ii) reduction of travel times. |

1. **Introduction**
   1. Belize is a small, open economy. The agricultural sector remains a significant driver of the Belizean economy; the sector generates 16.0% of GDP (2014) being sugar cane, citrus and bananas the most important products. The agricultural production represents a significant proportion of Belize’s total exports, in 2017 the exports of major agricultural products accounted for more than half (52.1%) of all export values. The service sector included transport, telecommunications and tourism accounts for 70% of the GDP. According to the "National Sustainable Tourism Masterplan for Belize 2030," tourism alone contributes anywhere from 18% to 25% of the total GDP.
   2. Road transport is the leading transport mode for cargo and passengers in Belize and henceforth a fundamental mechanism for economic development. Of Belize’s road network, there are only two land connections with neighboring countries Guatemala and Mexico, putting significant importance on these two corridors; the George Price Highway (GPH) and the Phillip Goldson Highway, for Belize’s overland trade and integration with the Mesoamerican Region. According to Belize’s Transport Master Plan, the main movements in the country are presented in the George Price Highway with major demand presented in the transit between San Ignacio, Benque Viejo, Belmopan, Belize City and the border with Guatemala.
   3. Of Belize’s Primary Highway Network, 27% of the surface is in poor condition, 69% in fair condition and only 4% in good condition, this evidence the need of an increase in infrastructure investment. The GPH is part of the primary roads system and comprehended Belize City – Belmopan – Guatemala Border, 77 miles (124.7 km), some tranches of this highway are not in good conditions developing a service far below standards. The investments in this route are essential to improve the competitiveness of the country and particularly of the western region, while reducing transportation costs and travel times. The GPH is the only major transport artery to and from Guatemala, vital for trade and integration with Central America. Trade with Guatemala has boomed since 2003, and the introduction of a Partial Scope Trade Agreement (PSA) between Belize and Guatemala in 2010 is stimulating further growth of trade between the countries, therefor to improve the rode connection with Guatemala is essential for Belize to take the full advantage of the PSA.
   4. According to the diagnosis carry out during the elaboration Belize’s Master Plan, it was observed that realizing Belize’s full potential, faces limitations due to the country's weak transport infrastructure network (roads, ports and aviation), which inhibits the performance of its key sectors. The Additional Financing for George Price Highway Rehabilitation (BL-L1029) focuses on substantially improve the road connectivity within Belize’s main districts and with Central America by rehabilitating the George Price Highway (GPH) road infrastructure between miles 47.9 in Belmopan and 67.3 in Santa Elena to national standards.
   5. This document analyzes the Additional Financing for George Price Highway Rehabilitation (BL-L1029) project, presenting the arguments that explain the contribution of the project to the economic integration of Belize, validating therefore its strategic alignment with the regional challenge of economic integration proposed in the Updated Institutional Strategy of the Bank (UIS) 2010-2020 (GN-2788-5). This annex aims to demonstrate that the Project will contribute to maintain and expand Belize´s connectivity with the region and the rest of the world as the project will improve access to important tourist, agricultural, and petroleum industrial areas by rehabilitating the George Price Highway (GPH) between Belmopan and Santa Elena. The document is organized in three sections: first, it is presented the regional context, secondly it is presented the qualitative and quantitative arguments demonstrating that the project contributes to improve the physical and economic integration of the country; and the third section analyzes the validation of the operation’s alignment with the Economic Integration Challenge in accordance with the UIS and the Bank´s Sector Strategy to Support Competitive Global and Regional Integration (GN-2564-4).
2. **Regional Context**
   1. Belize economy has grown at low rates in the last ten years, showing a Gross Domestic Product annual average growth for the years 2007-2016 of 2%, including a slump of a -0.5%. The levels of Foreign Direct Investment (FDI) have been on average 8% of the GDP for the last ten years[[1]](#footnote-1); this figure illustrates a consistent level of external capital inflow to the economy which are, to some extent, influenced by the internal market size, the international trade dynamics of the country and the conditions of the country infrastructure[[2]](#footnote-2).

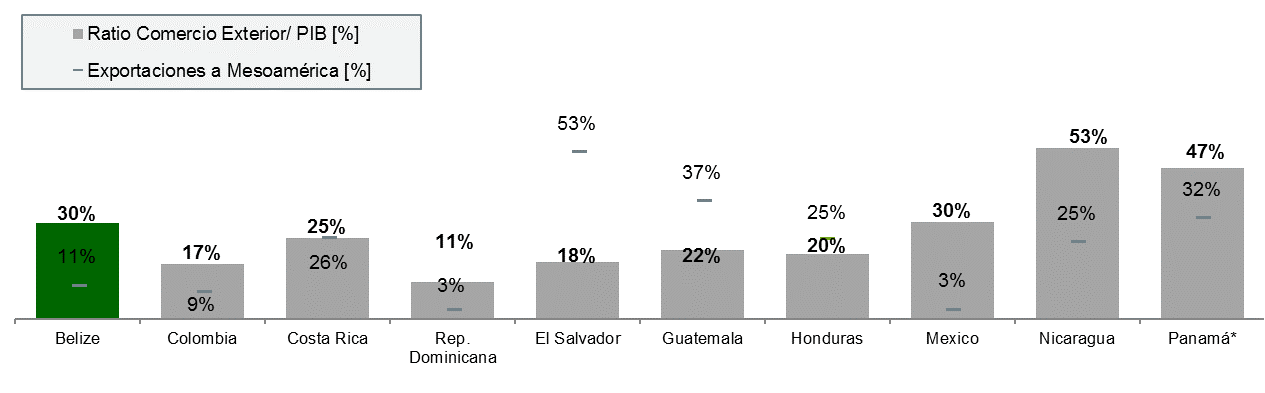
**Figure No. 1. Belize Gross Domestic Product (Constant prices)**

Data: 2017, 2018 and 2019 are forecasted years

Source: International Monetary Fund (IMF), World Economic Outlook (WEO).

* 1. Regarding the trade dynamics and the economic integration, Belize is member of the Caribbean Community (CARICOM) since 1974; CARICOM is constituted by relatively small countries in terms of population and size, and diverse in terms of geography and levels of economic and social development. CARICOM countries share similar development challenges that could be assessed by combining efforts and creating synergies to move towards a greater development state through economic integration[[3]](#footnote-3). According to IDB estimates, CARICOM is operating on average 46% below its trade potential. In addition, intra-regional trade in the Caribbean stands at a relatively low 13% of total trade; this increases to just over 20% if exports to Latin America are included. These estimates put in evidence that the pattern and structure of CARICOM trade in goods has remained somewhat unchanged across the last ten years.
  2. The region exports small percentages of its total production to intra-regional markets, while trade with extra-regional traditional partners such as USA, Canada, the UK, and the rest of the European Union, dominates by far CARICOM’s total trade in goods. Furthermore, most of CARICOM’s trade, both intra-regional and extra-regional, is carried out by the region’s most developed countries, with Trinidad and Tobago as the leading exporter (73.4%) and Jamaica (28%) the major importer. Mesoamerica trade relevance for Belize is observed high. The exports of good to Mesoamerica’s region is 30% of its total export or 11% of its GDP’s (Figure No. 2). If we were to include the exports of services to Mesoamerica (good + service), the figure ascent to 66% of all export of good and services from Belize to all Mesoamerican countries.

**Figure No. 2. Mesoamerica’s trade**



Source: ALG. 2013

* 1. The trade dynamics of Belize analyzed in a bilateral perspective, depicts that the tops destinations of Belize exports are; the United States (33%), the United Kingdom (29%), Jamaica (5.7%) and the Netherlands (4.7%), highlighting the fact that the aggregation of these four countries represents the 72.4% of the total value of Belize’s exports. Regarding the origin of its imports, the top countries are the United States (38%), Mexico (11%), Curacao (7.5%) and Guatemala (7.1%)[[4]](#footnote-4). It is observed a low level of intraregional commerce in Belize, therefore it is relevant to promote greater levels of trade with the Latin American and the Caribbean region to reduce the risk of negative external economic shocks that could have origin in developed economies. To achieve this objective; transport infrastructure investment represents a contributor to reduce transport and logistic cost and enhance economic integration.
  2. The reduction of transport cost and logistics can be considered as a tool for developing the activity of small and medium sized Belizean enterprises by increasing their probability to export. **(Molina, D., Heuser, C y Mesquita, M., 2016)**. Transport infrastructure plays a decisive role in the systemic competitiveness of the economy due to the direct impact it has on transport costs, which are a determinant of the final prices of tradable and non-tradable goods. High prices in these type of goods, means a loss of competitiveness with respect to the rest of global competitors. Considering the mechanism by which transport infrastructure affects competitiveness, it is important to note that empirically it is observed that the commercial flows of an economy are highly sensitive to transport costs **(Krugman and Livas, 1996)**, hence lower transport costs means positive effects on a country's internal and external trade.

1. **Overview of the operation in terms of Regional Integration**
   1. The Project (BL-L1029) aims to substantially improve the road connectivity within Belize’s main districts and with Central America by rehabilitating the GPH road infrastructure segments to national standards, decreasing travel time and costs, reducing road fatalities and injuries, and ensuring road accessibility by improving the climate change resilience of the corridor. This road has therefore a function of a strategic corridor for both, the territorial cohesion and the regional integration of the country, as it connects the western region with the rest of the primary network at the national level, and with the regional infrastructures of the neighbor countries.
   2. Despite the productive potential of these regions, the competitiveness of agricultural products in international markets is affected by the quality of transport infrastructure in the country. IDB’s studies indicate that poor transport and logistics infrastructure in Belize, along with low network connectivity hinder the connection between production centers and markets and affect the country competitiveness[[5]](#footnote-5). The limitations primarily affect the agricultural value chains, where the transport associated losses could be extremely high. As mention before, the three primary industries that contributes to the Belizean exports are tourism, agriculture, and petroleum; each of these industries depends on the project segment of the GPH and thus will benefit from improvements to the roadway. One of Belize’s largest agricultural areas is along the roadway leading from the GPH to the community of Spanish Lookout. The goods produced here must travel along the project segment of the GPH to reach international markets or processing plants whose final product is exported.
   3. Studies shows that the sugar industry is disadvantaged by inefficiencies in the current outbound transportation logistical practices causing some degree of competitive weaknesses on the global market, therefore improvements on transport infrastructure will contribute to enhance competitiveness of the product. Regarding the Belizean petroleum industry, this centered near the town of Spanish Lookout with all petroleum is transported by truck along the project roadway and eventually to Belizean ports. At the regional level the main Mesoamerican production and distribution chains that depend on the conditions of the primary rode, infrastructure including the GPH, are the following:

**Figure 3. Belize and Mesoamerica’s production chains**

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| **National product chains subject of international trade** | |
| Import | Export |
| Tourism | Fruit juice |
| Composts | Sugar cane |
| Pesticides | Bananas |
| Concrete | Crustaceous (shrimp) |
| Paper vases | Watermelon |
| **Main Mesoamerican chains** | |
| Fruit juice | Corn |
| Crustaceous (shrimp) |  |

*Source:* ALG, 2013

* 1. With regards to the effects on Belize’s tourism, much of Belize’s inland tourism industry centers around the twin towns of San Ignacio and Santa Elena located at the westernmost end of the project road segment[[6]](#footnote-6). The towns act as the center of a burgeoning ecotourism trade with a number of eco-lodges and resorts in the surrounding area and numerous eco-focused activities. Additionally, the project segment is the primary access corridor for tourists entering Belize by land and the road traveled by most tourists to access many of the Mayan cultural and historic sites that lie along the highway. Of note, the highway provides access to the Mayan sites of Xunantunich, Pilar, Cahal Pech, Pacbitan, and Caracol as well as permitting passage of tourists in Belize to the famed Mayan site of Tikal in Guatemala.
  2. Considering the productive profile of Belize, the GPH has a potential to become an important corridor for international trade of agricultural products such as sugar and citrus because this highway is of high demand of heavy vehicles such as semi-trailers, trailers and full trailers with a strongest movement between Belmopan and Belize City[[7]](#footnote-7). The supplementary works on GPH will contribute to reduce the vehicle operating costs and travel times, which is expected to be reflected in gains for transport users, the productive sectors and the competitiveness of the areas under influence. National investments to upgrade the conditions of the GPH will contribute to improve transport services for rural production, connecting the production and processing areas with national and international markets. The new paved road provides an outstanding opportunity to expand both goods and service exports to Guatemala and from there to other parts of Central America.
  3. The regional integration initiative for Mesoamerica, The Mesoamerican Project (PM), includes the GPH between Belmopan and Santa Elena as a segment of the International Network of Mesoamerican Highways (RICAM). The Project segment helps integrate Belize with the region by providing direct access to one of two land crossings between Belize and the region and the only one with Central America. Belize’s lone border crossing with Central America lies approximately twelve miles beyond the project end. The Guatemalan portion of the route was upgraded approximately five years ago to a condition similar to that of the project segment upon completion.

1. **Validation Criteria under the Integration Strategy**
   1. The Additional Financing for George Price Highway Rehabilitation (BL-L1029) project is strategically aligned with the development challenge of economic integration included in the Bank's Institutional Strategy 2010-2020 (GN-2788-5). The expected results from the investments in the GPH, regarding the reduction of travel times and transport costs; will contribute to promote international trade of agricultural products and tourism, as well as to expand the opportunities for small and medium enterprises to be inserted (and /or participate) in global value chains, thereby contributing to the inclusive and sustainable growth of the country.
   2. In the past four years, the Bank has approved operations for the transport sector of Belize, supporting a comprehensive program of rehabilitation of the road network, which includes interventions in the main national routes. This operation complements these investments, by financing the improvement of the primary network (GPH) as part of the strategy to consolidate a core system that provides a secure and reliable connection between the main cities, production areas, ports and airports in Belize. The project contributes to the Framework Corporate Results (CRF), through the following indicators linked to the Regional Challenge for Economic Integration reflected in the Framework Results of the project: *constructed or rehabilitated kilometers of an integration corridor*, since it will rehabilitate and improve a section of the GPH primary network.
   3. Finally, according to Sector Strategy to Support Competitive Global and Regional Integration (GN-2565-4), a regional integration operation is classified as such when it incorporates one of the following non-mutually exclusive indicative criteria: (i) a cross-country focus, (ii) national subsidiarity, (iii) regional additionality, and (iv) compensation of coordination failures. This operation is aligned with two of the criteria: i) cross-country focus and (iii) national subsidiarity. Considering the scope of the project, this project contributes to a cross-country focus, as it is a national project that has a direct effect on advancing accessibility standards by improving the country’s highway connection with Central America. The project is critical for Belize to maintain and grow its economic integration with the rest of the world. The project also contributes to national subsidiarity since it is a national investment with cross-border objectives since the road section is part of the Mesoamerican Project’s RICAM meant to create a regional network of highways.

1. World Bank Data Base at <https://data.worldbank.org/country/Belize> [↑](#footnote-ref-1)
2. See BID-INTAL, *Integración regional e Inversión Extranjera Directa: El caso del MERCOSUR*, Buenos Aires, 2002. [↑](#footnote-ref-2)
3. CARICOM Member States have set three strategic goals to guide the development of remedial programs and projects for increasing their competitiveness, reducing inefficiencies, and deepening global and regional economic integration, as follows: (1) upgrading key economic infrastructure, (2) enhancing competitiveness and facilitating trade expansion and diversification, and (3) deepening regional integration and maximizing gains from external trade agreements. *Source:* *Caribbean Community Regional Aid for Trade Strategy 2013–2015 Caribbean Community Secretariat.* [↑](#footnote-ref-3)
4. Data source is the Observatory of Economic Complexity of the Massachusetts Institute of Technology (MIT) <http://atlas.media.mit.edu/en/> [↑](#footnote-ref-4)
5. Transport Sector in Belize, Infrastructure and Environment Sector/ Transport Division TECHNICAL NOTE No. IDB-TN-607 [↑](#footnote-ref-5)
6. Tourism accounts for 37% of Belize’s GDP and 32% of all exports and is expected to grow to 44% of GDP and 39% of all exports by 2024. The number of tourist arrivals, 309,000 in 2014, is expected to increase to 434,000 by 2024. From the World Travel and Tourism Council’s report “Travel and Tourism Impact 2014 Belize.” [↑](#footnote-ref-6)
7. Transport Master Plan. [↑](#footnote-ref-7)