

## TOURISM DEVELOPMENT PROJECT

(BL-0012)

### EXECUTIVE SUMMARY

<b>Borrower:</b>	GOVERNMENT OF BELIZE		
<b>Executing agency:</b>	MINISTRY OF TOURISM, MINISTRY OF WORKS		
<b>Amount and source:</b>	IDB: (OC)	US\$	11,000,000
	Local: Counterpart funding	US\$	3,000,000
	Total:	US\$	14,000,000
<b>Financial terms and conditions:</b>	Amortization Period:	25	Years
	Grace Period:	4	Years
	Disbursement Period:	4	Years
	Interest Rate:	variable	
	Supervision and Inspection:	1.00	%
	Credit Fee:	0.75	%
	Currency:	US dollars from the Single Currency Facility.	
<b>Objectives:</b>	To increase employment opportunities, foreign exchange earnings and government revenues from tourism in a manner which is environmentally and archaeologically sustainable.		
<b>Description:</b>	The Project will develop and conserve major Maya archaeological sites; improve access to key tourist areas by upgrading access roads; contribute to protecting the barrier reef by seeking solutions to water supply and sewage treatment problems on Caye Caulker; stimulate community participation in the provision of tourist related goods and services through micro-enterprise development; and improve the effectiveness of key institutions in the tourism sector through institutional strengthening. The project will generate revenues to cover recurrent costs and the foreign exchange impacts will be positive and substantial, see paragraph 4.8 and 4.10.		
<b>Bank's country and sector</b>	The approved Country Paper (CP) identifies tourism as a priority sector whose development offers the best prospects for diversifying foreign exchange earnings as trade preferences for traditional		

<b>strategy:</b>	exports are phased out. The rationale for the Bank's emphasis on tourism is that it attracts private sector investment (foreign and local) for accommodations and facilities; generates foreign exchange; creates income and employment among less skilled workers; and in the specific case of nature and cultural tourism, it generates revenue to help conserve the asset. To carry out the strategy, the project will implement key components of the <i>Tourism Strategy Plan</i> prepared with Bank assistance (TC-96-02-20-03). Consistent with the CP strategy to maximize concessional financing of Bank operations in Belize, MIF funding is proposed for a companion human resource development project and TC Funds for the Caye Caulker component.
<b>Environmental/ Social review:</b>	An EIA was prepared and submitted to the Bank's Public Information Center for public comment on December 1, 1999. The EIA concludes that the project will have no major direct negative impacts, and the most serious indirect negative impact, which could occur if economic benefits do not reach the communities, will be mitigated by a community participation component directed at the villages within the Caracol area of influence. Financing of mitigation measures is summarized in paragraph 4.22.
<b>Benefits:</b>	The beneficiaries will be the public and private sector organizations involved in tourism, and communities along the Caracol access road. In the longer run, benefits will accrue in the form of the preservation and protection of the environmental and cultural assets which form the base of the sector.
<b>Risks:</b>	Risks to project sustainability are associated with slower than projected rates of tourist arrivals and delays in realizing project outputs. World growth trends in eco-and adventure tourism are favorable. Annual variations of visitors to Belize are due to external factors and tend to be short run and corrected by marketing strategies. Risks associated with output delays can be mitigated by careful planning and close Bank monitoring of activities. Environmental risks associated with delays in completing Environmental Management Plans for protected areas are manageable.

**Special  
contractual  
clauses:**

**1. Condition to First Disbursement**

The first disbursement of Bank financing shall be subject to the fulfillment, to the satisfaction of the Bank, of the following conditions: (i) the establishment of a Project Execution Unit within the MOT, and the hiring of the Project Director, a Financial Officer and the Archaeology Coordinator, see paragraph 3.3; (ii) a letter of approval by the Ministry of Budget Management granting the MOT the authority to establish a separate account to collect, retain and utilize entrance fees from archaeological sites earmarked for Project-related activities and to ensure long term Project sustainability; see paragraph 4.11; and (iii) presentation of the Program's Operation Manual, see paragraph 3.1.

**2. Conditions to Disbursement for Visitor Facilities**

Disbursement of funds for visitor and staff facilities at Caracol shall be subject, in addition to the conditions indicated in paragraph (1.) above, to submission to the Bank of the final design and siting plan, including environmental mitigation measures, see paragraph 2.8.

**3. Conditions for Disbursement for the Archaeology Plan**

Disbursement of funds for the archaeology development plan shall be subject, in addition to the conditions indicated in paragraph (1.) above, to presentation to the satisfaction of the Bank, of a duly executed agreement between the MOT and the BTB which includes the terms contained in paragraph 2.10.

**4. Conditions to Disbursement for the Access Road**

Disbursement of funds for the access road shall be subject, in addition to the conditions indicated in paragraph (1.) above, to presentation to the satisfaction of the Bank, of a letter of commitment from the MOW indicating that the access road to Caracol is part of the Ministry's National Road Network and that the MOW assumes the responsibility to maintain the road after completion of the upgrading contemplated under the Project, see paragraph 3.10.

**Poverty-targeting  
and social sector**

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth

<b>classification:</b>	Replenishment (Document AB-1704).
<b>Recognition of retroactive expenses:</b>	The Bank may authorize the Borrower to use up to US\$300,000 of the resources of the financing to reimburse expenditures incurred after July 1, 1999 in hiring the project director, the archaeology coordinator and other start-up costs and may recognize as part of the local counterpart up to the equivalent of US\$300,000 incurred after the same date for Project start up costs and other expenses directly related to the Project, as long as the Bank's procurement procedures are followed. See paragraph 3.17.
<b>Exceptions to Bank policy:</b>	A procurement waiver is requested for direct contracting for archaeological research services, see below.
<b>Procurement:</b>	As provided in OP-726, the public bidding requirement will be waived for the procurement of archaeological research services from universities currently authorized to work at Maya sites in Belize, see paragraph 3.15.

## **I. FRAME OF REFERENCE**

### **A. Macroeconomic situation**

- 1.1 Belize is a small open economy facing the challenge of how to integrate itself into the competitive world economy. The country has a low population density, with an area of 22,965 km<sup>2</sup> and only 238,000 inhabitants. In 1997, agriculture, manufacturing, trade and tourism, transportation and communication contributed respectively between 14 to 18 percent of GDP. Primary exports are sugar (29 percent of all exports), citrus (19 percent), bananas (16 percent) and seafood (13.6 percent). These products currently benefit from preferential marketing arrangements in Europe and the U.S. However, these preferences are being gradually eliminated as the world moves towards more open markets.
- 1.2 Belize is actively seeking opportunities to diversify its sources of foreign exchange earnings but the transition to an open economy has not been easy. Over the 1993-1998 period, economic activity slackened and GDP growth only averaged 2.8 percent. Early in the period, external trade shocks contributed to sluggishness while fiscal restraints and a sharp slowdown in domestic investment restrained growth thereafter. The subdued growth in domestic demand together with the currency pegged to the US dollar contributed to a low inflation rate. At the same time the unemployment rate rose steadily and has remained above 12 percent since 1995. Unemployment tends to be urban-based and concentrated among the younger segments of the population. Improved education and employment training is the preferred approach to prepare the labor force for productive jobs.
- 1.3 On the external side, Belize has run a recurrent trade deficit owing to its high dependence on imported goods. Export earnings - mainly from agricultural products - are subject to fluctuations arising from weather conditions, world price changes and to the phasing-out of preferential trade agreements. However, over the past four years, investment in non-traditional exports, particularly seafood, has contributed to increased foreign exchange earnings.
- 1.4 Traditionally, surpluses on services and transfers have significantly offset the chronic deficit on merchandise trade. However, tourism expenditures have been making an increasing contribution to the services account especially since the departure of the British garrison in 1993. Over the 1992-98 period, tourist arrivals increased on average by 8 percent annually and tourism expenditures, as percentage of GDP, grew from 20.6 percent in 1993 to 23.5 percent in 1997.

### **B. The tourism sector**

#### **1. Characteristics and importance of tourism**

- 1.5 Tourism is a major industry for Belize. The Central Bank estimates that tourism represents some 15 percent of GDP and 25 percent of foreign exchange earnings.

In the early 1990s, tourism surpassed sugar as the country's number one gross foreign exchange earner, see Annex I-1. Total tourism expenditures in 1998 reached close to US\$100 million and employment in the industry has risen consistently since 1991 reaching some 2,200 jobs in 1998. Further, the sector has strong links with other productive sectors, tends to be labor intensive and is a major source of government revenue, through taxes and import levies.<sup>1/</sup>

- 1.6 While tourism contributes significantly to the economy of Belize, the industry is operating below capacity. The number of tourists still remains few in number and the hotel occupancy rate (based on occupancy tax declarations) has remained in the 27-30 percent range since 1993. In addition, the industry faces seasonality problems, with a surge in arrivals during the December-March period followed by decreases during the northern hemisphere summer season. Also, Belize's share of tourist arrivals at competing destinations (Costa Rica, Honduras, Ecuador and Guatemala) is only six percent and the country attracts only one percent of tourists visiting CARICOM countries. There is considerable potential for increasing the number of visitors in view of: the relatively small shares of all segments of the markets in which Belize competes; the fact that Belize offers a diversified package of attractions not available in any one of the competing regional destinations; and the excess capacity in the lodging sector.
- 1.7 However, many tourism stakeholders in Belize are concerned with the social and environmental consequences of mass tourism occurring elsewhere in the Caribbean. On the other hand, increasing the number of visitors to Belize is of special interest to policy makers. This is because anticipated increases in foreign exchange, employment and government revenues could compensate to a significant extent for the expected losses resulting from the scheduled termination of preferential trade agreements for bananas, sugar and citrus over the 2001-2005 period. Gradual, planned growth in the tourism sector is compatible with Belize's environmental and social context. Striking a balance between environmental and social concerns and the need to increase foreign exchange earnings highlights the issue of the optimum growth rate for the sector.
- 1.8 In the recently completed *Tourism Strategy Plan*, four growth scenarios were analyzed ranging from a no-growth option to a mass tourism option. The study concluded that a "managed growth" scenario where tourist arrivals grew about four percent annually was the preferred option. Under this scenario, during the first five years existing properties achieve viable occupancy rates, while over 10 years impressive growth in GDP, employment and government revenues could be

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<sup>1/</sup> Calculating the net impact of tourism on the economy is still a matter of debate. The World Tourism Organization is leading an international task force to develop models to better integrate tourism into national product estimates.

realized without damage to the fragile environmental and cultural foundation upon which tourism is based.<sup>2/</sup>

## **2. Potential for the development of tourism**

1.9 Can a four percent annual growth rate - about 4,000 additional tourists a year - be achieved? The following factors will permit growth in the country's nature-based and cultural tourism, while still maintaining the unique aspects of Belizean culture and character, distributing benefits to local communities, and protecting the environment:<sup>3/</sup>

- a. the natural and cultural resource base is varied and in good condition compared to many of Belize's competitors. These features appeal to the much sought-after and rapidly growing natural heritage/eco-tourism marketplace. According to the World Tourism Organization, with the aging and retirement of the affluent over-45 year-old demographic segment, and with the opening up of new destinations, an average annual growth rate in international tourism arrivals of 4 percent over 1992-2010 is expected to be realized. Parallel to this growth, "new tourism" is appearing, differentiated from the more traditional "mass tourism". The "new tourist" has a high level of concern for environmental conservation, is keen to learn about the natural environment, new cultures and to have educational vacations. The "new tourist" looks for unique vacation experiences and safe adventures. This is a highly desirable and sought-after tourist.<sup>4/</sup>
- b. one of Belize's most promising, but yet undeveloped, visitor attractions is its archaeological resources. The upgrading and development of key archaeological sites will enable Belize to attract the "Mundo Maya" market that has been visiting Guatemala and Mexico by the thousands in the low season months for Belize; and
- c. Belize is English-speaking and relatively close to North American markets.<sup>5/</sup>

1.10 Because Belize appeals to high-yield, upscale tourists it does not need to resort to attracting mass tourists, who tend to spend less, and require large, homogeneous

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<sup>2/</sup> Tourism Strategy Plan for Belize, prepared for the Bank by the Blackstone Corporation, Toronto Canada, June 10, 1998 with funding from the Canadian Trust Fund. See Technical File 7.

<sup>3/</sup> The annual average rate of growth in tourists and cruise ship arrivals was 8 percent during the 1992-98 period. Excluding cruise ship passengers, the rate was 6 percent.

<sup>4/</sup> Tourism Strategy Plan for Belize, Executive Summary.

<sup>5/</sup> In his study of the tourism market in Latin America, Moritz Kraemer (RE3/OD5) concludes that tourists prefer destinations closer to home; tourists are attracted to truly outstanding natural or cultural sites; they prefer English-speaking countries; and relatively underdeveloped tourist destinations (he cites Honduras, Guatemala and Panama) have great promise as tourist attractions.

types of accommodations that place stress on the fragile coastal environment. The tourism niche market that Belize has chosen to target through its protection of the environment and adoption of "eco-cultural tourism" is a tremendous strength in and of itself. Further, this niche market represents strong growth potential as incomes and environmental awareness grow in industrialized countries. It is also clear that Belize can potentially put itself strongly on the Mundo Maya circuit as a major destination, thereby drawing many more thousands of visitors annually and helping to overcome its seasonality problems.

### **3. Public and private sector institutions involved with tourism**

- 1.11 While essentially a private sector activity, Government normally works as a partner to further the interests of the tourism sector. In Belize this partnership is facilitated by the small size of the sector and the broad acceptance of the type of tourism that Belize should market, i.e., eco-tourism. This harmony of purpose by the principal organizations in the sector (outlined below) is unusual as the conventional tourism sector in the Caribbean and Mexico typically views the environmental movement as a threat to its development. Reinforcing the public/private sector partnership is an important output of the project and will be achieved through institutional strengthening of public and private sector stakeholder organizations and through the MIF-financed private sector training element.

#### **a) The Ministry of Tourism (MOT)**

- 1.12 The MOT is the government agency with overall responsibility for the planning, management and implementation of policies for the sustainable development of the country's cultural, environmental and tourism resources. While its budget is small, the Permanent Secretary and the eight-person staff provide technical and policy support to the Minister, who also directs the Belize Tourist Board. In a practical sense, MOT is a support agency for the better staffed and financially secure BTB, which has both policy formulation and implementation capabilities.

#### **b) The Belize Tourist Board (BTB)**

- 1.13 The BTB, a statutory body in existence since 1990, is responsible for representing the interests of the tourism industry, appropriate marketing of tourism, issuing hotel licenses, promoting tourism awareness, and providing training and other support services to the industry. The BTB also provides information services to visitors, engages in international marketing and organizes trade shows. It is governed by an eight-person board of directors appointed by the Minister of Tourism. Currently, Board members are predominantly from the private sector and represent a broad range of industry interests. To further enhance the BTB's linkages with the private sector, the current Minister of Tourism has formed the Belize National Tourism Council (BNTC), a 19 member advisory group with majority private sector participation.



- 1.14 One of the major undertaking of the new government has been the implementation of the Tourism Strategy Plan, see paragraph 2.3. Over the past year the BTB has been reorganized, installed new management, improved its finances, relocated its headquarters and strengthened its links with the private sector and government agencies involved in the sector, such as customs and immigration. BTB's income (US\$1.8 million in 1998) is derived principally from hotel accommodation and cruise ship taxes. With this income, BTB is able to sustain a considerable promotion effort (US\$800,000 in 1998) and is ideally positioned to play a leadership role in upgrading the quality of tourism services and matching the tourism product to markets. Because the BTB has the capacity to handle promotion and marketing functions, resources for these purposes have not been included in the Loan.

**c) Belize Tourist Industry Association (BTIA)**

- 1.15 As a non-profit membership organization representing three private sector interest groups (the Belize Hotel Association, the Tour Operators Association and the Belize Eco-Tourism Association) the BTIA is central to the establishment of a viable public/private sector partnership. Formed in 1985 and based in Belize City (with District Chapters in San Pedro, Caye Caulker, Cayo, Corozal, Placencia and Toledo), BTIA has the potential to mobilize support from its constituents for policies and programs that would benefit the sector. However, its effectiveness is constrained by a weak financial structure and it tends to favor the interests of larger members often leaving the small hotel sector under-represented. BTIA will be the beneficiary of the companion MIF project for human resource development, see paragraph 2.20.

**4. Community involvement in tourism**

- 1.16 The *Tourism Strategy Plan* (see paragraph 1.18) notes that community-based tourism ventures in Belize cover a wide range of services but are not yet widespread, tend to lack an effective marketing system and are geared to a small portion of the market - younger budget-minded travelers.<sup>6/</sup> Further, umbrella agencies such as the BTB and BTIA are typically viewed by community-based operators as more interested in larger facilities. As a result, the benefits from membership in such organizations are not considered cost effective.
- 1.17 The EIA concludes that to achieve its income and employment generation objectives, the Project will require a pro-active approach to community participation and involvement in tourism. To involve communities in the provision of goods and services to the sector implies new approaches to community organization and small enterprise development. An approach that has worked well in other countries is to enlist the help of microenterprise and

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<sup>6/</sup> See Blackstone Report, Chapter 11.

community based NGOs in setting up community training and small business programs.

**C. Experience of the Bank and other organizations in the sector**

- 1.18 Prior to 1996 assistance to the tourism sector was largely provided by USAID under its Natural Resources (NARMAP) and Tourism Management projects. The termination of these projects (and the departure of USAID in September 1996) coincided with a two-year decline in tourism arrivals (precipitated by the Mexican Peso devaluation, the drop in Caribbean tourism due to the Atlanta Olympic Games and sharp declines in cruise ship arrivals) and growing concern on the part of stakeholders for the future of the industry. Government requested IDB assistance to undertake an assessment of the sector and prepare a long term development strategy and plan. *A Tourism Strategy Plan for Belize*, financed from Canadian Technical Cooperation Funds, was prepared in close consultation with industry stakeholders and released on June 10, 1998.<sup>2/</sup> The *Plan*, which provides the rationale and content of the proposed project, was reviewed and discussed at three IDB/Ministry of Tourism-sponsored stakeholder meetings in Belize City, and adopted by the new government after the August 1998 elections. Concurrently, the European Union (EU) financed the development of two Mayan archaeology sites in Southern Belize (Lubaantun and Lim Li Punit). The most recent Bank activity affecting the sector is a Regional TC to support the start-up of the Mundo Maya office in Guatemala, see Technical File 8.

**D. The Bank's strategy for Belize and rationale for involvement in the sector**

- 1.19 The November 1999 Country Paper identifies tourism as a priority sector whose development offers the best prospects for compensatory growth and trade diversification as marketing preferences for traditional exports are phased out. The rationale for the Bank's emphasis on tourism is that it attracts private sector investment (foreign and local) for accommodations and facilities; generates foreign exchange; creates income and employment among less skilled workers; and in the specific case of nature and cultural tourism, it generates revenue to help conserve the asset. To carry out the strategy, the project will implement key components of the *Tourism Strategy Plan*. The *Plan* proposes a "niche market" approach to the development of the sector which has been endorsed by the GOB and a broad representation of tourism industry stakeholders in Belize.

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<sup>2/</sup> Two preliminary studies were also undertaken: *Belize Tourism Profile* by Maria Vega, December 30, 1995 (IDB funded); and *Pilot Project for Belize Community-Based Tourism*, November 1996, by the ARA Consulting Group, (financed by Canadian TC Funds).

## II. THE PROJECT, COST AND FINANCING

### A. Objectives

- 2.1 The goal of the project is to increase employment opportunities, foreign exchange earnings and government revenues from tourism in a manner which is environmentally and archaeologically sustainable. The project purpose is to increase tourist arrivals. The beneficiaries will be the public and private sector organizations and communities involved in tourism. The logical framework matrix is included in Annex I-1.

### B. Project components and project description

- 2.2 The project will: develop and conserve major Mayan archaeological sites; improve access to key tourist areas; help protect the barrier reef by seeking solutions to growing problems with water supply and sewage treatment on Caye Caulker; encourage community participation in the provision of tourist related goods and services through micro-enterprise development; and improve the effectiveness of key institutions in the tourism sector through institutional strengthening.

#### 1. Site and access improvement (US\$7,408,000)

##### a) Archaeology sites (US\$4,808,000)

- 2.3 The *Tourism Strategy Plan* concludes that the archaeological sites of Belize are a relatively untapped tourist resource - especially in view of the growing interest in the Mundo Maya circuit. An *Archaeology Assessment* conducted for this program identified Caracol as the primary site; Lamanai, Altun Ha, Xunantunich and Cahal Pech as second level sites; and El Pilar, Cerros, Santa Rita, Nim Li Punit and Lubaantun as third level sites, see map.<sup>8/</sup> Improvements at Caracol, the second and third level sites represent a coherent package of archaeological attractions and will elevate Belize to a world class archaeological destination.
- 2.4 The choice of Caracol as the flagship archaeological site in Belize is based upon the following criteria: (a) Caracol has become well-known within the tourist community as a major site which rivals Tikal (in Guatemala) in its size and splendor, but its archaeological monuments and visitor services are still relatively underdeveloped; (b) it is well situated in the western-central part of Belize and is a natural stop for tourists on the Mundo Maya circuit as they travel between

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<sup>8/</sup> *Tourism Development of the Archaeological Sites of Belize, An Assessment*, Richard M. Leventhal, UCLA Institute of Archaeology, December 1998, done for the IDB. The designation of second and third level sites in no way implies a judgement of their importance or significance, but rather is used to rank the investment required at each location.

Mexico and Guatemala; (c) it is located within the Chiquibul National Park and two associated forest reserves which serve as a buffer zone to the archaeological site and offer added attractions for ecotourism.

- 2.5 A major and long-term investment (US\$2,995,000) in site improvement is required for Caracol. Three types of activities are planned:

**(i) Excavation and research**

- 2.6 Archaeological excavation and research will be undertaken by archaeologists authorized to operate in Belize.<sup>9/</sup> Research requires the excavation of monuments, mapping and recording, analysis of artifacts and preparation of findings. Each year the DOA and the PAAs agree on the scope of work and the level of effort for the season, typically 4-6 months, but to be increased under the project. The monuments at Caracol programmed for excavation and research are listed in Table 2 of Technical File 2.

**(ii) Consolidation**

- 2.7 Consolidation (also called stabilization) is the act of re-enforcing or consolidating the walls and materials only to the point where the archaeologist has definitive proof of their existence and form.<sup>10/</sup> While consolidation typically follows the excavation and research phase, this has not always been possible at Caracol, mostly due to financial constraints. As a result, there is a considerable backlog of consolidation work at Caracol -- and it is the consolidated structures, in the proper setting and together with appropriate interpretive materials, that has tourist appeal. Also, some structures will be consolidated without prior excavation and research. This is a common practice as it prevents the further deterioration of the structures, enhances the tourist appeal of the site, and it is still possible (and desirable) for future generations to open the structure and conduct research.

**(iii) Visitor facilities and services**

- 2.8 Site improvement represents non-archaeology work that prepares the site for visitors, protects it from abuse and supports excavation and consolidation activities: such items as roads, parking areas, water and sanitary facilities, visitors centers, walking trails, signs, picnic areas, and caretaker and worker facilities are the most common site improvements to be undertaken at Caracol. Design

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<sup>9/</sup> The Department of Archaeology has agreements with foreign universities to undertake archaeology research and consolidation at most sites: Xunantunich (University of California at Los Angeles); El Pilar (University of California at Santa Barbara); Caracol (Central Florida University at Orlando); and Altun Ha (Kent University and the Royal Ontario Museum); Cayo sites (University College of London and the University of New Hampshire).

<sup>10/</sup> This is distinct from reconstruction, which is speculation on the form of the ancient buildings, and which should be kept for drawings and computer simulations. No reconstruction activities will be financed under the project.

guidelines and siting plans for visitor and staff facilities at Caracol have been prepared by the U.S. National Park Service (NPS).<sup>11</sup> Final designs and construction specifications are being prepared by the staff of the DOA. Prior to the disbursement of project funds for the construction of visitor facilities, the Executing Agency will obtain the "no objection" from the Bank for the final design and siting plan.<sup>12</sup> In addition, under a cooperative arrangement with the NPS, assistance will be provided to plan for the design, operation and maintenance of the Caracol Reservation and a buffer zone within the Chiquibul National Forest. This represents the first step in a "sister-park" relationship between Caracol and the Mesa Verde National Park in the U.S. State of Colorado. Future activities to enhance project sustainability under the sister park arrangement include an exchange program; training of DOA staff in tour guide and site interpretation skills; training of park managers; and assistance in developing work plans for maintenance, interpretation, visitor services and site protection.<sup>13/</sup>

- 2.9 The second and third level archaeology sites will play a major role in the tourist visits within Belize. Most of these are much easier to access than Caracol and significant increases in the number of visitors can be expected. More modest efforts are required to upgrade these sites, (US\$1,385,000 and US\$208,000 respectively) including consolidation work (particularly at Lamanai and Altun Ha), landscaping, visitor centers, restrooms, improved trails and signage (US\$220,000). The archaeology work at each site, including Caracol, will be managed by Department of Archaeology staff, in coordination with a Primary Archaeology Advisor.

**b) Archaeology development plan (US\$200,000)**

- 2.10 In view of the critical role of archaeology in the strategic plan for the tourism sector, both the EIA and the NPS study highlighted the need for a comprehensive archaeology development strategy. While the Leventhal report and NPS study provide work plans and approaches for each site, the sequencing and strategy for the archaeology sub-sector is not defined.<sup>14</sup> Further, the NPS study recommended that national goals for research, resource protection, education, economic growth and tourism be established. To address these issues, US\$200,000 has been

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<sup>11/</sup> See "Caracol: General Development and Management Recommendations," July 1999. Prepared for the MOT by the U.S. National Park Service and funded by the IDB, see Technical File 3.

<sup>12/</sup> See Executive Summary: Special Condition (d).

<sup>13/</sup> See Technical File 9 for the agreement establishing the "sister park" arrangement between Mesa Verde and Caracol.

<sup>14/</sup> For example, to accommodate large numbers of cruise ship visitors some close-in sites may need to be defined as "high volume" where some monuments are "hardened" and ample visitor facilities provided. Alternatively, improvements at other sites might focus on the more hardy adventure tourist where archaeology is combined with ecotourism in the surrounding buffer zones.

budgeted for technical assistance to the MOT and the BTB to prepare an archaeology development strategy. An agreement between the MOT and the BTB setting forth the obligations of each institution in the preparation of the strategy will be required as a condition precedent to disbursement of funds for this activity.<sup>15/</sup> The strategy will be ready for the beginning of the 2000-2001 digging season.

**c) Access roads (IDB: US\$2.4 million; GOB: US\$2.4 million)**

- 2.11 Since Caracol will be the major attraction on the Belize portion of the Mundo Maya circuit, it is critical that it remain accessible, not only to support archaeological and site development work, but also to assure year-round visitor access. The unpaved road to Caracol is about 80 km from the paved Western Highway, and sections of the road are barely passable after heavy rains. The road also provides access to the Western Highway for those living along the road and in two villages (Cristo Rey and San Antonio); a population of about 2,000 persons. The road will require initial small-scale improvements, (such as widening in some sections, increasing the gravel surface by an average of 6 inches, improved bridge approaches and drainage), to achieve all-weather status and regular maintenance thereafter. Several levels and costs of road improvements were considered, and in consultation with Government, a modest cost-effective standard was selected. This resonates well with the EIA recommendation that the road be upgraded to the level of a first-class rural road.
- 2.12 For the Caracol road US\$2.4 million will be provided from project funds, to be matched by an equal amount from the Government. Benefits are expected to accrue to tourists, tourism operators and to villagers along the road, see Environmental Impact Assessment in TF-1. Construction techniques used to improve access roads in protected areas will employ "best practices" (such as barriers to stream siltation, re-seeding of bare areas, etc) to minimize negative environmental impacts, see paragraph 4.17.

**d) Environmental sanitation on Caye Caulker**

- 2.13 Caye Caulker is a small island with a population of about 1,000 lying about 20 miles northeast of Belize City within the buffer zone of a coral reef marine protected area. The main attraction of the island is the near-by Barrier Reef, declared a World Heritage Site by UNESCO in 1990. Until recently, development on the island was classified as small scale and local, but in the last few years it has experienced rapid growth as a tourist destination. Due to development pressures and population growth on Caye Caulker, the current situation of potable and wastewater treatment is not sustainable, and may have serious environmental consequences if not addressed in the near future. Increasing volumes of sewage being discharged into the aquifer and the nearshore

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<sup>15/</sup> See Executive Summary: Special Condition (b).

waters pose a human health risk (through contamination of well-water). Sewage effluents also contribute to the deterioration of nearby coral reefs by accelerating algal growth, increasing the incidence of coral disease and other related effects. Because of these conditions, Caye Caulker has been selected by the Belize Coastal Zone Management Program as a demonstration site for sustainable development of other cayes.

- 2.14 A feasibility study to examine options for managing the potable water and wastewater problem on Caye Caulker is being financed under a non-reimbursable US\$195,250 Japan Consulting Fund Technical Cooperation (ATN/JC-6866-BL). The TC was approved on January 19, 2000. The terms of reference for the study highlight the need to design systems appropriate to the unique environmental and socio-economic conditions on the island, the need for community involvement in the operation and management of the system, its financial sustainability and its use as a model for other small coastal communities. An Environmental Impact Assessment (EIA) will be conducted as part of the feasibility study and in parallel with a community consultation process, see Technical File 10 for the terms of reference. The executing agency for the study will be the Coastal Zone Management Authority (CZMA) with the Water and Sewerage Authority (WASA) providing technical inputs.
- 2.15 Construction of the water and wastewater treatment facilities will be financed in a subsequent operation aimed at replicating the Caye Caulker experience in other cayes and coastal communities. The follow-on operation will address other environmental and coastal management problems affecting the health of the reef, particularly solid waste management, as these are expected to become more urgent as the number of visitors to Belize increase.

## **2. Institutional strengthening (US\$400,000)**

### **a) The Department of Archaeology (US\$200,000)**

- 2.16 Located within the Ministry of Tourism, the Department of Archaeology (DOA) is charged with the management and oversight of the country's archaeology assets and monitoring foreign archaeological operations in Belize. The DOA, headed by the Commissioner of Archaeology, currently has a headquarters staff of eleven and a field corps of fifteen located at the eleven archaeology sites which it manages. In order to carry out and manage the archaeological work and site improvements envisioned in the project, a significant increase in DOA staff will be required, (from the current 11 to 20 at the end of the project, see Table 7 in TF-4), together with a training program for both present and future staff members. Each year during the four-year project, two person-years of long-term training will be provided. Subjects will include: graduate training in archaeology; research and archiving; and museum and site management. Short-term skills training in interpretation (tour guides) at Mesa Verde National Park in Colorado will be provided under the "sister park" arrangement, see paragraph 2.8.

Strengthening of the DOA will also result from the establishment of a project execution unit, see paragraph 3.3.

**b) Community development (US\$200,000)**

- 2.17 During project preparation a number of operations were surveyed to identify issues and opportunities and to determine how community based initiatives can be supported and encouraged so that they will be able to play a fuller role in the tourism industry, resulting in economic benefits for communities and contributing to protection of the resource base. During community consultation meetings in villages along the Caracol road several needs were identified: technical assistance in setting up small business (lodging, restaurants, gift and craft shops and guide services), training for hospitality and support staff, and credit.
- 2.18 Bank experience in Belize has shown that these types of needs are best addressed through local NGOs specializing in community and small enterprise development. The Bank has supported the development of two local NGOs - National Development Foundation of Belize (NDFB) and the Belize Enterprise for Sustainable Technology (BEST) - which could build local awareness of the opportunities and changes brought on by increased tourism and also provide community development services. Project funds will be utilized to contract for community development services with local NGOs. Loan resources will not be used for credit programs.

**3. Human resource development (MIF funded)**

- 2.19 The quality of services provided to tourists, ranging from their reception at borders and airports to lodging and guide services, are uneven and in need of improvement. Based on the Tourism Strategy recommendations and subsequent meetings with tourist sector stakeholders, two areas of training were identified: skills training for hospitality staff (such as receptionists, cooks, tour guides, and hotel staff) and management and business administration training for the owners and operators of tourism facilities, including the small hotel sector and community-based organizations offering eco-tourism services, e.g., Toledo Ecotourism Association.
- 2.20 The human resource development component of this project will be a companion US\$1 million MIF project, see paragraph 3.13 and Technical File 6. The objective of the MIF operation is to: i) improve both the availability and relevance of tourism education and training and, ii) strengthen the management and finances of the organization so that BTIA can more effectively represent the private sector viewpoint in its dialogue with the Ministry of Tourism and the Belize Tourist Board.
- 2.21 Based on a model that has worked well in Jamaica, technical assistance from MIF will be utilized to: (a) hire "extension agents" to: (i) meet with tourist service providers to determine the demand for skills (needs assessment); (ii) assist in the



development of modular training programs including modules aimed at promoting direct community involvement in the sector; and (iii) locate local training providers to do the training (brokerage services); and (b) prepare a long-term national tourism training strategy.

- 2.22 The Eligibility Memorandum for the MIF project was approved on July 12, 1999. Donor Committee approval is scheduled for July 2000, to coincide with the approval of the present Project.

**C. Project cost and financing**

- 2.23 The cost of the Project is estimated at US\$14,000,000 as follows:

TABLE I  
PROJECT COST BY COMPONENT AND SOURCE OF FINANCING

(Thousands of US\$)

Project Component	IDB Loan	GOB	Total
<b>A. Site and access improvement</b>	<b>7,408</b>	<b>2,400</b>	<b>9,808</b>
1. Archaeology sites <u>a/</u>	4,808		4,808
a. Basic infrastructure	1,383		1,383
b. Consolidation and development	2,755		2,755
c. Vehicles, equipment and supplies	450		450
d. Site information	220		220
2. Archaeology development plan	200		200
3 Access road and final design	2,400	2,400	4,800
<b>B. Institutional strengthening</b>	<b>400</b>		<b>400</b>
1. Community development	200		200
2. Strengthening the DOA	200		200
<b>C. Project execution units</b>	<b>900</b>	<b>160</b>	<b>1,060</b>
<b>D. Financial costs</b>	<b>1,700</b>	<b>155</b>	<b>1,855</b>
1. Interest	1,590		1,590
2. Credit fee		155	155
3. Inspection/supervision	110		110
<b>E. Evaluation and audit</b>	<b>100</b>	<b>30</b>	<b>130</b>
<b>F. Contingency</b>	<b>492</b>	<b>255</b>	<b>747</b>
<b>Project Total</b>	<b>11,000</b>	<b>3,000</b>	<b>14,000</b>
Percent	78%	22%	100%

a/ Distributed as follows: Caracol, US\$2,995,000; second level sites, US\$1,385,000; third level sites, US\$208,000 and signage for all sites, US\$220,000.

**D. Financing plan**

**1. IDB financing (US\$11,000,000)**

2.24 The Bank's financing for the Project will be in US dollars from the single currency facility of the Bank's Ordinary Capital (OC) resources and total US\$11 million, which is 78 percent of total Project cost. The loan proceeds will be used to finance direct costs of site and access improvements, institutional strengthening, project execution units, interest during the period of project execution, the Bank's inspection and supervision fee and a portion of contingency.

2.25 The terms and conditions of the proposed Bank loan are as follows:

Source of funds:	US\$ from the Single Currency Facility of Ordinary Capital
Interest rate:	Variable
Credit fee:	0.75 percent of the undisbursed balance
Inspection and supervision:	One percent of the loan amount
Disbursement period:	4 years
Grace period:	4 years

**2. Japan Consultant Fund (US\$195,250)**

2.26 The Japan Consulting Fund (JCF) has provided grant funds to undertake the feasibility study for a potable and wastewater treatment system on Caye Caulker, ATN/JC-6866-BL, see paragraph 2.13.

**3. Local Contribution (US\$3,000,000)**

2.27 The local contribution will finance a portion of road improvement costs (US\$2.4 million), the credit fee (US\$155,000), a portion of the cost of the PEU (US\$160,000) and contingency (US\$255,000). The local contribution will be covered by annual appropriations from the national budget.

### III. PROJECT EXECUTION

#### A. The borrower and the executing agency

- 3.1 The Borrower will be the Government of Belize (GOB). The Ministry of Tourism (MOT) and the Ministry of Works (MOW), both located in Belmopan, will be the Executing Agencies. The Department of Archaeology (DOA), under the direction of the Commissioner of Archaeology, is the only department within the MOT and is located in separate facilities in Belmopan. The DOA has a headquarters staff of eleven and a contract staff of fifteen located at archaeology sites throughout the country.<sup>16/</sup> An Operations Manual to provide guidelines for the execution of the project will be prepared with inputs from the Project Team. The Operations Manual will include, *inter alia*: (i) the specific rules applicable to the execution of each Project component; (ii) the rules which will govern the establishment, management and reporting of the separate account which will receive the entrance fees collected by the MOT from archaeological sites; (iii) the terms of an inter-ministerial agreement between the MOT and the MOW for the Caracol road; (iv) guidelines for the operation of the PEU; and (v) any other elements that the parties consider relevant to the execution of the Project. The presentation of the Operations Manual will be a condition to first disbursement.<sup>17</sup>

#### B. Borrowers implementation arrangements

##### 1. Project Execution Unit

- 3.2 Because the MOT has a limited number of professional staff, and the Project requires coordinating the activities of the BTB, the MOW the DOA and other agencies, as a condition prior to first disbursement of the Bank financing, other than for reimbursement of start-up costs authorized for retroactive financing, a Project Execution Unit (PEU) will be established within the MOT, with essential staff hired (the Project Director, a Financial Officer and the Archaeology Coordinator).<sup>18/</sup> The PEU will be operational for the duration of the Project and will be assigned the responsibility for overseeing each of the project components. The PEU will have overall responsibility for Project execution and for monitoring and evaluating Project activities. The PEU will also be responsible for providing relevant technical, financial, administrative and environmental reports to the Bank.
- 3.3 The PEU will have the necessary professional staff and facilities to administer Project activities effectively. The staff will include a Project Director, Financial Officer and Controller at the MOT, and an Archaeology Coordinator and

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<sup>16/</sup> Government's budget designation is "unestablished staff" and corresponds to contractors who are not members of the civil service.

<sup>17/</sup> See Executive Summary: Special Contractual Condition (a)(iii)

<sup>18/</sup> See Executive Summary: Special Contractual Condition (a)(i).

Contracts Officer at the DOA. Resources have also been included to finance environmental auditing of project activities. See Technical File 11 for budgets and illustrative terms of reference for PEU staff.

**C. Execution of Project components**

**1. Site development**

3.4 The organization of work at Caracol and the other sites is outlined below:

**a) Caracol**

- 3.5 The archaeological excavation and research work will be the responsibility of the Primary Archaeology Advisors (PAAs) authorized to work at Caracol. As in the past, the PAAs will organize and oversee the work of excavation teams, maintain archaeological records and drawings, supervise the archive unit (which records and catalogues artifacts) and submit a year-end report on activities. The PAAs report to the Archaeology Coordinator at the DOA.
- 3.6 Archaeological consolidation is a specialized activity and the MOT will contract for skilled individuals to manage and oversee consolidation work at Caracol. Consolidation teams will be financed under the project and contract consolidators will report to the Archaeology Coordinator at the DOA. There is also a recognition that a close relationship must exist between the PAAs and the consolidation teams as excavation usually precedes consolidation.
- 3.7 The tourist facilities to be financed under the projects, mostly small scale and local, will be undertaken by local contractors following the Bank's local procurement policies. Contractor selection will be the responsibility of the Project Director while monitoring contractor performance at Caracol will be the responsibility of the Site/Park manager. Preliminary plans for tourist facilities are included in the NPS study, see paragraph 2.8.
- 3.8 Because there will be three distinct but interrelated types of activities carried out at Caracol simultaneously, on-site coordination and management will be necessary. This function will be the responsibility of the resident Site/Park manager (with supporting staff), who represents the Department of Archaeology at Caracol. In many other countries, this function is carried out by the resident Park Supervisor or Park Ranger. Responsibilities include providing the necessary logistic support so that the work plan can be accomplished; including on-site coordination with those managing research and consolidation activities, monitoring the work of non-archaeology contractors, security of the site and surrounding reserve. The Site/Park manager will report to the Commissioner of Archaeology.

**b) Other archaeological sites**

- 3.9 Lamanai and Altun Ha are the priority archaeological sites after Caracol. Lamanai will require the most consolidation and site improvement work, while Altun Ha needs improved visitor facilities. Due to the rapid visitor growth expected during the 1999/2000 season (three cruise ships/week as compared to one/week during the 1998/1999 season), emphasis will be placed on upgrading visitor facilities at both sites, particularly sanitary facilities. Activities will be managed by staff from the DOA which will hire and supervise work teams. These teams will be smaller than their Caracol counterparts and will shift activities between Lamanai and Altun Ha (see map) as required. The site improvements at the remaining sites (Xunantunich, Cahal Pech, El Pilar, Cerros and Santa Rita) are limited to visitor facilities rather than archaeological work and will be managed by the Contract Administrator. Minor activities are planned for Nim Li Punit and Lubaantun as improvements at these southern sites were completed under a recently concluded European Union-financed project.

**2. Access road**

- 3.10 The access road to Caracol passes through three road maintenance districts: i) the Ministry of Works is responsible for the 14 miles from the Western Highway to the forest reserves; ii) the Forest Department (of the Ministry of Natural Resources and Environment) for the 26 miles within the forest reserves; and iii) the DOA (within the Ministry of Tourism) for the 10 miles within the Caracol Archaeological Reserve. Prior to the call for bids for upgrading the Caracol road, the Borrower will provide the Bank with evidence of the responsibility assumed by the MOW for road upgrading and maintenance.<sup>19/</sup> The MOW will be the executing agency for the road component of the Project. The details of the cooperation between the MOT and the MOW will be included in an inter-ministerial agreement which will include, among other things: (i) the commitment of the MOW to issue calls for bids and select firms to upgrade the road and supervise the contractor in accordance with established bank procurement procedures; (ii) the agreement of the parties to conduct joint planning and supervision activities on the Caracol road; (iii) the agreement of the parties to maintain a regular flow of information regarding their activities related to the Caracol road; and (iv) the agreement that payments to the contractor and the supervision firm from Project funds will be authorized by the Project director based on MOW determinations of work completed.

**3. Institutional strengthening**

- 3.11 The institutional strengthening component will upgrade the operational capacity of the DOA and enhance community participation in the Project. The Archaeology Coordinator will draw up training plans for DOA staff which will be

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<sup>19/</sup> See Executive Summary: Special Condition (c)(i).

selected by the Commissioner of Archaeology in consultation with the Archaeology Coordinator. The administrative staff of the PEU will manage the logistics and make payments to off-shore training institutions. The training and exchange opportunities for DOA staff funded by the NPS under the "Sister Park" agreement will be coordinated with the Commissioner.

**a) Community development**

- 3.12 Implementation of the community development component will be through local NGOs specializing in community and small enterprise development, see paragraph 2.18. The Project Director at the MOT will contract for community development services with local NGOs.

**4. Human resource development**

- 3.13 The human resources development component will be a stand-alone MIF project, see Technical File 6. Implementation arrangements will be detailed in the MIF Donors Memorandum scheduled for approval in July 2000.

**D. Other implementation arrangements**

**1. Procurement of goods and services**

- 3.14 Except as noted in paragraph 3.15, for the procurement of goods and services and for the contracting of works to be financed from the Loan, the Bank's standard procurement policies and procedures will be followed. International competitive bidding will be required for both goods and services valued at US\$200,000 or more, and for civil works costing US\$1.0 million or more.<sup>20/</sup> The proposed procurement plan is shown in Annex III-1.
- 3.15 The Borrower has requested a procurement waiver to permit the DOA to negotiate contracts for archaeological research services from the Primary Archaeological Advisors (PAAs) currently authorized to work at Maya sites in Belize. The procedure which has been followed by the DOA is to issue annual permits to foreign archaeology organizations (universities and museums) to conduct research and consolidation work at specific sites. Work is typically done for several months during the dry season under the supervision of the PAAs, and at the end of each season a report is submitted to the DOA. The costs of the annual digs and the research documentation have been the responsibility of the PAAs.<sup>21/</sup> For its part, the DOA oversees and monitors the activities of the PAAs, provides some logistic support and protects sites and artifacts during the off-season.

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<sup>20/</sup> See "Procurement" on page 3 of the Executive Summary.

<sup>21/</sup> For a fascinating account of the work at Caracol by the University of Central Florida over the past 15 years by Drs. Arlin and Diane Chase see their web site at <http://www.caracol.org>

- 3.16 Under the Project, the DOA will enter into contracts with the PAAs whereby the PAAs will continue to finance traditional levels of activity. However, an additional level of effort, which may be agreed by the DOA and the PAAs, will be eligible for financing from Project funds. Contracts between the DOA and each PAA will be submitted to the Bank for its "no objection." In view of the long experience and predominate capability of the PAAs, and the experience of the DOA in dealing with them, the Project Team recommends a procurement waiver be approved to permit direct contracting with currently approved PAAs. Should new PAAs be required to expand activities, competitive selection procedures will be followed. Also, competitive procedures will be followed for the selection of individuals or firms required to undertake additional consolidation work at the various sites.

## **2. Recognition of earlier counterpart expenses and retroactive financing**

- 3.17 The Bank may authorize the Borrower to use up to US\$300,000 of the resources of the financing to reimburse expenditures incurred after July 1, 1999 in start-up costs and other expenses directly related to the Project, and may recognize as part of the local counterpart up to the equivalent of US\$300,000 incurred after the same date for Project start-up costs other expenses directly related to the Project, as long as Bank procurement procedures are followed. Priority start-up cost identified include the salaries and support costs of the project director (US\$55,000) and archaeology coordinator (US\$55,000), a well and water storage facilities at Caracol (US\$50,000) and sanitary facilities at Lamanai and Xunantunich (US\$60,000).

## **3. Rights-of-way**

- 3.18 Because the upgrading of the Caracol road will be carried out within the rights-of-way of the existing road, no issues are foreseen regarding the acquisition of rights-of-way for project financed works. Before calls for bids are issued, the MOW will present to the Bank evidence that it has legal possession of the land on which upgrading is to take place, as well as easements or other rights.

## **E. Execution period and disbursement schedule**

- 3.19 The execution period for the Project is estimated at 48 months. Twenty percent of the resources of the Loan will be disbursed in year one, 30 percent in year two; 40 percent in year three and the final 10 percent in year four. See Table 4 in TF-4 for details.

## **F. External auditing**

- 3.20 In accordance with the General Conditions of the Bank Contract, the financial statements of the Project are to be presented annually, after being certified by an independent firm of public accountants acceptable to the Bank. Costs of these audits will be eligible for financing under the Loan, see cost table on page 14.



**G. Bank monitoring and evaluation of the Project**

**1. Bank inspection and supervision**

- 3.21 Responsibility for overall administration of the project will lie with the Bank's Country Office in Belize, with ongoing support from the Project Team.

**2. Annual meetings, performance benchmarks and reports**

- 3.22 Annually during the execution period, the MOT, the MOW, the DOA, the PAAs and the BTB will meet with the Bank to review progress to date and plan Project activities for the following year. The first such meeting will take place at the end of the first year's digging season, and approximately each year thereafter. Items for review at the annual meetings will fall into two broad categories: (i) progress in completing the outputs of the project as summarized in the output column of the logical framework matrix, including miles of road rehabilitated, number of monuments consolidated, visitor facilities completed, staff trained, etc.; and (ii) progress in achieving the objectives of the project, including the impact on employment, start-ups in community-based enterprises, income and foreign exchange earnings. See Technical File 12 for the monitoring and evaluation plan. A report on the outcome of each annual meeting will be presented to the Bank by the Project Director.
- 3.23 The information and quantifiable indicators needed to review progress in meeting the Project's objectives will be compiled by the DOA, the BTB and the Central Statistics Office of the Ministry of Finance. The baseline databank will be maintained by the PEU. In addition, the PEU will prepare semi-annual progress reports which will be reviewed during the annual meetings, see paragraph 3.22.

**H. Project readiness and start-up arrangements**

- 3.24 The Project has been prepared in collaboration with the staff of the DOA, BTB and MOT, and with assistance from local and international consultants. The terms of reference for the staff of the PEUs have been prepared and agreed upon with the Bank, see Technical File 11. After Loan Committee approval of the Project Report, the Minister of Tourism will take the necessary steps to establish the PEU and begin the staff selection process. Work at Caracol can begin quickly because of the preparatory work done by Leventhal (Archaeology Assessment) and the NPS team (Development and Management Recommendations). Preliminary design and cost estimates for the Caracol road are ready. Final design and preparation of bidding documents can begin when the Contract Administrator is hired by the PEU. Immediately after contract signature a "kick-off" conference will be held to finalize the first year's work plan.

## **IV. VIABILITY, BENEFITS AND RISKS**

### **A. Political and institutional viability**

- 4.1 Tourism is viewed as a priority sector by Government because of its potential to generate foreign exchange, income and employment. In its policy statements the Government underscores the need to promote Belize as an ecotourism destination to capitalize on its strategic location, diverse attractions and multicultural identity. It is also concerned with the country's unique environmental assets and wishes to ensure that the sector develops in an environmentally sustainable manner. The Project was designed within these policy guidelines.
- 4.2 Institutional issues relate to the limited human resource base of the Ministry of Tourism and the Department of Archaeology. These will be addressed by creating and staffing a Project Execution Unit at the MOT, increasing the staffing of the DOA and training of DOA staff. The project will be carried out through existing government agencies and, with the exception of a project execution unit, no new organizations or institutions will be created. It will not be necessary to pass new legislation, although several enabling decrees will be required at the Ministry level, such as those establishing PEUs and inter-ministerial cooperation agreements covering road maintenance and the collection of park entrance fees, see paragraphs 4.11. Institutional coordination will be one of the primary tasks of the PEU, see paragraph 3.2.

### **B. Technical feasibility**

- 4.3 The tasks to be carried out under the Project do not present technical problems. Accepted and established practices and procedures will be followed with respect to the archaeological components, and road upgrading and drainage techniques are well understood. The training and institutional strengthening components are based on proven models employed elsewhere in the region. Staff skill levels within the executing agencies, particularly the DOA, are appropriate for the current levels of effort. However, a significant increase in trained staff will be required to sustain the expanded level of activities generated by the Project, see Table 7 in TF-4. Suitable candidates for skills upgrading and training are available in Belize, and the Project has earmarked US\$200,000 for both short and long-term training, see paragraph 2.16. Training will also be provided to DOA staff under the Sister Park arrangement with the U.S. National Park Service.

### **C. Economic justification**

#### **1. Methodology and assumptions**

- 4.4 Technical File 4 provides a comprehensive cost/benefit analysis of the Project. Costs include the investment costs provided by the Bank during the four-year execution period (US\$11 million) and the recurrent costs incurred by the Borrower for the following 10 years, compounded at 2 percent/year. The

Project's benefits are measured in terms of the park entrance fees and represent the difference in revenue between a "with project" and "without project" scenario.<sup>22/</sup>

- 4.5 The methodology used to determine income from park entrance fees was to estimate visitation levels at each site (based on historical trends, international and cruise ship travel projections and park carrying capacity considerations) and apply the entrance fee that will be established for each site. The annual growth rate of visitors at archaeology sites is expected to average about 15 percent during the project execution period, rise to about 18 percent over the five years after project completion and settle at 10 percent thereafter. It should be noted that growth rates for site visits exceeds the overall growth rate of tourist arrivals in the country, as many visitors go to more than one archaeological site during their stay. Further, the sharp increase in cruise ship arrivals over the next few years will increase growth rates at sites which are popular bus tours for cruise ship patrons (Altun Ha, Lamanai and Xunantunich). Park entrance fees will be established by the DOA and are commensurate with competing sites in Mexico, Honduras and Guatemala: US\$10 for first and second level sites and US\$5 at third level sites. The fees for Belizean visitors will be maintained at the current US\$2.50 and Belizeans are not charged for Sunday visits.
- 4.6 No attempt was made to place monetary values on intangible costs and benefits that might be attributed to the Project. The cost and benefit streams were subject to a 12 percent discount rate to determine net present value. A positive net present value indicates an internal rate of return (IRR) in excess of 12 percent. A sensitivity analysis was undertaken to determine the impact on the rate of return of changes in major cost and benefit elements.

## **2. Financial rate of return**

- 4.7 This project is financially viable. Under very conservative assumptions, the financial internal rate of return (IRR) is 14 percent. All costs are expressed in constant prices and are calculated on an incremental basis so as to reflect the net impact of the project, see Table 1 in TF-4.

## **3. Impact on foreign exchange earnings**

- 4.8 Tourist promotion projects can result in net foreign exchange outflows if the cost of imported components exceed tourist expenditures. Under the proposed Project, foreign exchange outflows occur at two levels: a portion of the Loan proceeds and recurrent costs require imports; and tourists consume some imported goods. Estimates were made of the proportions of foreign exchange for each category based on Central Bank data and consultants reports. Based on regional

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<sup>22/</sup> Under the "with project" scenario, the combination of increases in entrance fees and additional visitors produces an annual average growth of 14 percent in park fees over the 2000-2014 period. In the "without project" scenario, entrance fees remain unchanged and annual revenues increase at a 6 percent rate over the same period.

comparisons, it was assumed that over the next decade the portion of tourist expenditures that "leak" from the Belize economy will fall from the current rate of 55-60 percent to 50 percent. This is because eco-tourism, as opposed to mass-tourism has a smaller leakage effect: hotel, hospitality and guide firms are smaller, many are locally owned, they employ more Belizean labor and import less food. Assuming that Belize's tourism leakage ratio will decrease with the project, there will be net positive foreign exchange flows. This positive effect occurs even after making the annual debt servicing payment of US\$1.16 million on the Bank's Loan. By the year 2014, cumulative net foreign exchange earnings at current prices will reach an estimated US\$22 million, see Table 5 in TF-4.

#### **4. Sensitivity analysis**

- 4.9 Sensitivity analysis involves changing the value of one or more variables and calculating the resulting change in the internal rate of return. Changes in variables can be assessed individually to isolate key variables or combinations can be considered. It should be applied to variables that are numerically large or for which there is considerable uncertainty. The following variables were examined: investment costs, recurrent costs, visitation levels at sites, park entrance fees, and delays in benefits. The analysis reveals that the IRR is robust over a range of likely variations: the IRR is still 12 percent in the face of a 10 percent increase in investment or recurrent costs; and a drop in the growth rate of visitors at selected sites can be tolerated, but gets close to the margin at Altun Ha and Lamanai. A two year delay in benefits reduces the IRR to 11 percent. The sensitivity analysis confirms the need to increase park entrance fees, and to do so early in the Project; to control costs; and to maintain promotion efforts, see Table 6 in TF-4.

#### **Sensitivity Analysis**

<b>CHANGE IN VARIABLE</b>	<b>RESULTING IRR</b>
Baseline scenario	14%
Investment costs increase 10%	12%
Recurrent costs increase 10%	12%
Annual growth rate of visitors falls to:	
5% at Caracol	13%
10% at Xunantunich	12%
10% at Altun Ha	11%
10% at Lamanai	11%
10 % at all sites	3%
Two-year delay in benefits	12%

**D. Financial feasibility and recurrent costs**

- 4.10 A critical element in Project viability is assurances that the necessary resources will be made available to cover recurrent costs at the end of project activities. For example, in four years the DOA (staff and contractors) will grow from its present level of 26 to 59 and the operation and maintenance costs of the expanded DOA and the improved network of archaeological sites will increase from about US\$266,000 equivalent in 1998/99 to about US\$470,000 in 2004 rising to US\$571,000 in 2014. See Table 1 in TF-4. Based on the likely schedule of recurrent costs and the anticipated revenues from park entrance fees, the project will have a net positive impact on Government's budget throughout the life of the project. After servicing the IDB loan, the annual net positive budget effect will initially be negative, but by 2007 become positive and exceed US\$3 million annually by 2014, see Table 4 in TF-4.
- 4.11 The above analysis concludes that project revenues can generate the resources to cover all recurrent costs, including loan servicing. However, the critical assumption is that the DOA will have access to these revenues. Currently, the DOA is responsible for collecting park fees which are deposited into the general account of Government, and receives regular budget allocations. In order to ensure that projected recurrent costs can be covered, Government has agreed that park entrance fees will become available to cover the recurrent costs of the DOA. As a condition to the first disbursement of Loan financing, other than for reimbursement of start-up costs eligible for retroactive financing, the Borrower will provide the Bank with copies of an inter-ministerial agreement authorizing the MOT to collect park entrance fees and utilize them for operating costs of the DOA.<sup>23/</sup> Amounts collected in excess of DOA's budget requirements (recurrent costs and capital expenditures) should be returned to Government to service the IDB Loan and augment general revenues. To ensure accountability, resources of the Loan will be utilized to: i) upgrade the capacity of the MOT to collect and account for park fees; and ii) strengthen the capacity of the PEU to budget and disburse them to the DOA and provide the Ministry of Finance with appropriate records and documentation, see paragraph 3.3.<sup>24/</sup>

**E. Project risks**

- 4.12 Three general types of risks can be considered: those associated with the rate of tourist arrivals; those dealing with delays in realizing project outputs and environmental risks. In the past, variations in tourist arrivals have been short term in nature and associated with hurricanes, the severity of winters in the northern hemisphere and promotion efforts by competitive destinations. However, the

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<sup>23/</sup> See Executive Summary: Special Condition (a)(ii).

<sup>24/</sup> The MOT may enter into agreements with other institutions or firms to collect the fees. For example, the BTB currently collects the 7 percent hotel occupancy tax.

combination of Belize's unique package of attractions (not found in any one competitive location) and the projected growth in world demand for adventure tourism auger well for long term growth in tourist arrivals. The greatest regional competitive threat, particularly for the coastal and reef segments of the market, could come from Cuba, should it become accessible to U.S. tourists.

- 4.13 Risks associated with the timeliness of project execution are manageable. The following features will permit early start-up of project activities: executing agencies are in place; the project execution unit can be staffed within reasonable periods of time; and the Loan has provisions for retroactive financing of eligible startup-costs. The IDB Country Office will monitor disbursements and annual project meetings will track progress in meeting work schedules.
- 4.14 Environmental risks are associated with the pending confirmation of the financing source for the preparation and implementation of management plans for the system of protected areas surrounding the Caracol Archaeological Reserve, see paragraph 4.21. Delays in the approval of funds from the Global Environment Facility (GEF) or other sources for which this activity might be eligible could, in time, translate to insufficient on-site capacity to manage visitor access in sensitive ecological areas, monitor effects on biodiversity or enforce environmental protection regulations. These risks have been discussed with the Government of Belize and are considered acceptable within the 5-year time frame of the project for the following reasons: (a) Government has demonstrated its commitment to seeking a source of grant financing for the management plans and their implementation through a formal request submitted to the IDB. Should the request not be included within the official GEF pipeline, the Government and the IDB will seek alternative sources of financing; and (b) risks associated with the indirect impact of tourism will remain low given the remote conditions of the areas, low resident populations in nearby villages and moderate visitation levels forecasted over the project's duration.<sup>25</sup>

**F. Environmental and social impacts and proposed actions**

- 4.15 The EIA covering the Caracol archaeological site and access road was prepared and submitted to the Bank's Public Information Center on December 1, 1999, see TF-1. The EIA was accepted by the Belize Ministry of Tourism, and endorsed by the National Environmental Appraisal Committee (NEAC) in February 2000, and reviewed and discussed during community consultation meetings in March 2000. Based on the findings and recommendations of the EIA, an Environmental Action Plan was prepared which: i) identifies actions to eliminate, reduce or offset impacts to acceptable levels during project implementation, and ii) identifies the agents responsible for implementing or following-up on environmental and social

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Government is currently considering an EIA for a hydroelectric facility in the Chiquibul Forest Reserve, which includes the Project's area of influence. The GOB has requested that the Tourism Project EIA proceed in advance of the hydroelectric project so that the latter would have to address cumulative environmental and social impacts of the power supply investment.

mitigation measures. Government's environmental authority (the Department of the Environment -DOE) utilized the Action Plan to prepare an Environmental Compliance Plan. The Compliance Plan is co-signed by the Executing Agency (MOT) and forms the contractual basis for both the Executing Agency's commitment to carry out the Environmental Compliance Plan, and for the Department of the Environment's project monitoring and oversight responsibilities. The Compliance Plan is attached to a Letter of Environmental Clearance, which is DOE's approval to begin project activities. The DOE approval package is contained in Technical File 13. It was submitted to CESI on April 18 and reviewed on April 24, 2000.

- 4.16 The EIA concludes that there are no major direct negative impacts associated with the project.<sup>26/</sup> However, the EIA identifies minor negative direct and indirect impacts and confirms that these are manageable if appropriate mitigation measures are taken. The following summarizes the nature of these impacts, and outlines how the Borrower and the Bank intend to address them and finance mitigation measures.

**1. Road component: direct impacts and mitigation measures**

- 4.17 Direct negative impacts are those hazards associated with the construction phase and include soil erosion and stream siltation associated with earthworks; soil and water table contamination from fuel spills and improper storage of lubricants; removal of land cover and damage to local flora and fauna; and environmental degradation associated with worker camps. These potential negative direct environmental impacts can be controlled with proper and environmentally sound construction, landscaping and management techniques, i.e., best practices. Recommended mitigation measures for the Caracol road are included in Part 8 of the EIA (see TF-1) and will be incorporated into the terms of reference for firms bidding on the road works as well as the engineering supervision firm. The latter will be required to submit regular reports to the Department of Environment (DE) on compliance with standard mitigation measures.

**2. Archaeological component: direct impacts and mitigation measures**

- 4.18 The direct negative impacts from the excavation, research and consolidation work at the Caracol site are associated with exposing archaeological structures to the elements; impacts on critical species and fragile ecosystems within the sites; and damage to the local environment from workers' camps. As was the case with road works, these impacts are temporary in nature and can be mitigated through planning and the adoption of best practices by archaeologists and park managers. Most negative impacts will be avoided through the selection of most suitable sites

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<sup>26/</sup> In this context, major direct negative impacts refer to those physical, environmental or social costs (losses) that are a direct consequence of the project's construction, operation or maintenance activities considered significant based on existing environmental standards and regulations, changes in ecosystem or resource function or threats to public health.

for worker camps and other on-site facilities. Measures to mitigate the remaining negative direct impacts from the development of Caracol and other Maya sites are contained in both the EIA and the NPS Report on Development and Management Recommendations and will be included in the terms of reference for project contractors. Resources to finance these measures are included within the project. The DOA will be required to submit regular reports to the DOE on compliance with standard mitigation measures.

### **3. Indirect impacts**

- 4.19 The draft EIA also examined possible indirect impacts and underscored the need for mitigation measures to insure that local communities realize economic benefits from the project. Without special measures to involve local communities, the EIA warns that negative impacts may eventually lead to environmental and social degradation. To enhance the prospects for economic benefits for local communities, the project has two community involvement components: (i) community development efforts in villages along the Caracol road managed by local NGOs, to be financed from a US\$200,000 allocation from the Project (see paragraph 2.16) and (ii) employment and business administration training for employees and small operators, to be financed under the MIF-funded human resource development component, see paragraph 2.20. These two activities will enhance the capacity of community based organizations and businesses to become providers of goods and services for the tourist industry, with resulting employment and income impacts.
- 4.20 In addition, the EIA recommends a broader array of activities to enhance the social and cultural impact of the project, and to mitigate possible negative impacts. Recommendations include traffic awareness and safety training in communities along access roads to Maya sites; advocacy for upgrading quality of life in those communities to enhance their tourist appeal (e.g., health, sanitary facilities and solid waste management); and measures to encourage communities to protect their culture and heritage (art and handicrafts). These activities are largely within the mandate of the BTB and can be included in annual BTB budgets and work plans.
- 4.21 The EIA also underscores the need for management plans in the three protected areas in the Caracol area: the Chiquibul National Park, the Chiquibul National Forest Reserve and the Mountain Pine Ridge National Forest Reserve, which together represent one of the largest continuous tracts of seasonal tropical forest remaining in Central America. To enhance the overall environmental sustainability of the project, the Project Team will explore the possibility of financing these improvements in biodiversity conservation by approaching the Global Environment Facility. The operation would be implemented through the Forestry Department of the Belize Ministry of Natural Resources and the Environment.



**4. Financing and monitoring of mitigation measures**

- 4.22 The following table summarizes how major components of the Environmental Action Plan (see Part 8 of the EIA) will be financed.

**G. Social equity and poverty reduction classification**

- 4.23 The project does not specify explicit performance indicators to measure poverty reduction and social equity enhancement.

**H. Gender considerations**

- 4.24 Project components do not have gender specific positive or negative impacts.

**Table II**  
**FINANCING AND MONITORING**  
**OF MITIGATION MEASURES**

ACTION PLAN COMPONENT	FINANCING	RESPONSIBILITIES
Monitor the implementation of the mitigation measures for the direct and indirect environmental impacts outlined in the EIA.	The budget of the PEU includes resources for the staffing of the Unit and an indirect cost category of US\$252,000 for consultants, annual review meetings and strengthening of environmental auditing.	Execution: PEU Supervision: Dep't of Environment (DOE) Coordinating Committee (EMP para 7.1.2). Enforcement: DOE
Use best practices during road upgrading, see paragraph 8.2 in the EIA.	The road component includes a 20 percent contingency (US\$794,409) to cover, <i>inter alia</i> , the costs of environmental mitigation measures specified in the bidding documents.	Execution: Contractor Supervision: Ministry of Works (MOW) Enforcement: DOE
Prepare a long-term archaeology development strategy, see paragraph 8.1 in the EIA	An amount of US\$200,000 has been programmed for an archaeological strategy study, see paragraph 2.10.	Execution: The Belize Tourist Board (BTB) Supervision: MOT and PAAs. Enforcement: n/a
Prepare and implement management plans for three protected areas in the Caracol area of Belize.	The Project Team will seek financing from the GEF, see paragraph 4.21.	Execution: Consultants Supervision: IDB and Forestry Department Enforcement: DOE and FD
Facilitate involvement and participation of local communities in tourism, see paragraph 8.3 in the EIA.	Community development initiatives will be financed from a US\$200,000 allocation for contracts with local NGOs, see paragraph 2.17.	Execution: PEU through Local NGOs Supervision: PEU and Coordinating Committee

Objective Summary	Performance Indicators	Means of Verification	Important Assumptions
<b>Goals</b> Increase employment, foreign exchange earnings and government revenues from tourism in a manner that is environmentally sustainable	1.1 Employment in the hotel industry grows at an annual average rate of at least 5%. The 1992-98 rate was 5.9%. 1.2 Foreign Exchange from tourist expenditures grows at an annual average rate of at least 6% annually. The 1992-98 rate was 8.8%. 1.3 Government revenue increases due to: 4% increase from occupancy tax; 10% increase from cruise ship fees; and 10% increase from park entrance fees	1.1.1 Annual labor force survey - Ministry of Labor 1.2.1 Central Bank Statistical office - foreign exchange earnings from tourism 1.3.1 Statistics from the BTB and the DOA	<b>Goal to Supergoal</b> 1 Private sector responds to opportunities presented by an increase in the number of tourists 2 Policy framework for tourism remains favorable
<b>Purpose</b> Increase tourist arrivals	1.1 The annual rate of growth in tourist and cruise ship passengers visiting Belize is at least 8%, and the annual growth of visitors at Maya sites is 14% over the	1.1.1 Number of tourist arrivals at entry points and Maya sites - statistics from BTB	<b>Purpose to Goal</b> 1 Social and political climate continues to be stable 2 BTB's marketing and promotion efforts continue
<b>Outputs</b> Development and conservation of major archaeological sites	1.1 Basic infrastructure (water systems, lavatories, parking, signage, storage) developed at Caracol, Lamanai, Alton Ha, Xunantunich, Cahal Pech, El Pilar, Cerros, Santa Rita 1.2 Consolidation and development at Caracol - including removing vegetation, exposing original contours, consolidating structures, preparing visitor centers, developing walking trails 1.3 Development of the design, operation and maintenance of the Caracol Reservation and a buffer zone within the Chiquibul National Forest 1.4 Consolidation, landscaping, and improved visitor centers at Lamanai, Alton Ha, Xunantunich, Cahal Pech, El Pilar, Cerros, Santa Rita	1.1.1 Annual work plans and site inspection 1.2.1 Annual work plans and site inspection 1.3.1 Park Management Report 1.4.1 Annual work plans and site inspection	<b>Output to Purpose</b> 1 The Project Execution Unit is established and staffed as planned, and receives project financing in a timely manner

Activity Summary	Performance Indicators	Means of Verification	Important Assumptions
Improved access to key tourist areas	1.5 Development of a Mayan Exhibit in Belmopan	1.5.1 Site inspection	
Protection of barrier reef surrounding Caye Caulker	2.1 Grading, drainage and maintenance to improve the Caracol road	2.1.1 Increase in traffic counts/tourist arrivals by 4% - DOA	
Enhance tourism services through employment training	3.1 Feasibility study to examine options for managing the potable and wastewater problem on Caye Caulker	3.1.1 Water quality tests - CZMA	
	4.1 Through a parallel MIF project, the development of skills training for hospitality staff and management of business administration training for owners and operators of tourism facilities	4.1.1 Number of individuals participated in training programs offered	
	4.2 Development of modular training programs throughout Belize	4.2.1 Number of modular courses offered in San Pedro, Caye Caulker, Cayo, Corozal, Placencia and Toledo	
Institutional strengthening of key institutions.	5.1 Establishment of a project execution unit in the DOA	5.1.1 Ministerial decree	
	5.2 Eight person years of training provided to DOA staff	5.2.1 Project records and DOA annual reports	
	5.3 Preparation of four annual "State of the Sector" workshops for BTB	5.3.1 Project files	
	5.4 One person year of technical assistance to strengthen the management and finances of the BTIA	5.4.1 Annual work plan and project files	
Community development	6.1 Four contracts with local NGOs involved with community development and micro-enterprise development	6.1.1 Work plan of the Product Development Department of the BTB	
Activities	Inputs		Activity to Output
detailed budget in Annex I-1	1	1.1.1	1

BL-0012 TOURISM DEVELOPMENT PROJECT SCHEDULE OF PROCUREMENT AND BIDDING					
PROCUREMENT NEEDS OF THE PROJECT	Source of financing, (%)		Method	Pre- qualification requirements	Publication dates Quarter/year
	IDB	LOCAL			
<b>A. <u>Procurement of Goods</u></b>					
Two lots: 1 - Seven vehicles, US\$208,000	100		PQ	No	3/2000
Many small lots: 2 - Equipment, tools US\$172,000	100		PQ	No	n/a
Many small lots: 3 - Lime and cement, US\$500,000	100		LB	No	n/a
<b>B. <u>Civil Works</u></b>					
One lot: 1 - Upgrade 50 mile Caracol Road, US\$4.8 million	50	50	ICB	Yes	4/2000
Four lots, one each year: 2 - Road maintenance US\$100,000/yr		100	LB	Yes	Annually starting 1/2004
<b>C. <u>Consulting Services</u></b>					
Four lots, one each year: 1 - Archaeological research by PAAs, US\$200,000/yr	100		DC	No	n/a
Several lots: 2 - Consolidation/Stabilization experts, US\$200,000/yr	100		ICB	Yes	4/2000
Several lots: 3 - NGOs, US\$200,000	100		LB	Yes	4/2000

DC = Direct Contracting

ICB = International Competitive bidding

LB = Local Bidding

PQ = Price Quotation

**PROPOSED RESOLUTION**

**BELIZE. LOAN No. \_\_\_\_/OC-BL TO BELIZE**

**(Tourism Development Project)**

**The Board of Executive Directors**

**RESOLVES:**

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Belize, as Borrower, for the purpose of granting a financing to cooperate in the execution of a Tourism Development Project. Such financing will be for the amount of up to US\$11,000,000 from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and will be subject to the "Special Contractual Conditions" and the "Financial Terms and Conditions" of the Executive Summary of the Loan Proposal.