

TC Document

I. Basic Information for TC

▪ Country/Region:	Belize
▪ TC Name:	Support for Export-led Development in the Corozal District (including the Corozal Free Zone)
▪ TC Number:	BL-T1087
▪ Team Leader/Members:	Jaime Granados (TIN/CCR), Team leader; Krista Lucenti (TIN/CTT), Alternate Team leader; Mario Umana (INT/TIN); Alberto Barreix (IFD/FMM); Roberto de Michele (IFD/ICS); Ignacio Barragan (LEG/SGO) Linsford Coleman (CID/CBL); Alexis Bryant (CID/CBL); Cinthya Alfaro (INT/CCR); María Victoria Fazio (SCL/LMK); Guillermo Lagarda (CID/CID) and Ana Lucía Paz Soldan (INT/TIN).
▪ Taxonomy:	Client Support
▪ Date of TC Abstract authorization:	June 28, 2017
▪ Beneficiary:	Ministry of Economic Development, Petroleum, Investment, Trade and Commerce
▪ Executing Agency:	The Inter-American Development Bank (IDB)
▪ Donors providing funding:	Ordinary Capital Strategic Development Program for Integration (RIN)
▪ IDB Funding Requested:	US\$150,000
▪ Local counterpart funding, if any:	N.A.
▪ Disbursement period:	24 months
▪ Required start date:	November 1, 2017
▪ Types of consultants:	Consulting firm
▪ Prepared by Unit:	Trade and Investment Division (INT/TIN)
▪ Unit of Disbursement Responsibility:	IDB Country Office Belize (CID/CBL)
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	Yes
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and Innovation; Institutional Capacity; Economic Integration.

II. Objectives and Justification of the TC

- 2.1 As a small country, Belize depends heavily on trade, and its prospects for economic growth and development depend on the expansion of exports (of both goods and services) and foreign direct investment to provide employment and foreign currency generation. For the past two decades, tourism has been the main driver of economic growth, while the government has also sought to expand goods trade (which remains dominated by primary commodities, mainly agricultural) and attract foreign investment. In this context, Free Zones (FZ) were originally conceived in the 1990s as tools to meet these objectives in the border regions of Benque Viejo and Corozal, where FZs were developed with the support of private investors. Corozal FZ, situated at the border with Mexico, became an important park, with the number of registered companies peaking in 2007 at 463.

- 2.2 Belize's FZ, however, have lost direction. The largest by far, the Corozal FZ, while still vibrant in terms of sales and employment (with an estimated 3,000 direct and 800 indirect jobs¹), suffers from several policy contradictions. First, shops and warehouses cater to Mexican consumers who pay cash with Mexican pesos that the Belizean banking system finds difficult to clear and exchange into US or Belizean dollars. Accounts cannot be opened in Mexican pesos and local Banks, due to broader de-risking policies, find such currency increasingly difficult to accept. The cash economy adds to the risk of illicit flows, and to international perceptions of Belizean money laundering risk. Second, most goods sold in the FZ are cheap Asian imports and cigarettes that do not comply with the intellectual property and consumer protection standards that Belize is bound to by way of its international trade agreements. Third, there is a strong perception that other irregular substances may also be traded to and from the FZ for consumption in the Belizean territory and abroad. In its heyday in 2007, when 414 companies were registered, many of those firms engaged in one-off businesses and vanished soon thereafter or were deregistered. Such violations further damage Belize's international reputation and foster criminal activity. Fourth, Mexican peso devaluation has reduced FZ sales and employment, depressing the economy of the Corozal District and exposing its over-dependence on the zone. Fifth, there are scant positive spillovers from the activities of the zone. Most jobs are low-paying positions without any prospects for upgrading to higher value-added activity; and the shops are mostly operated by foreigners who buy or lease the outfits from private owners and land speculators, so that profits are unlikely to be reinvested to increase the productive capacity of the area. That is, because official regulation and supervision of the FZs has been extremely poor in Belize, the Corozal FZ has become the focus of low value-added and sometimes irregular trade and investment, with scarce linkages with the rest of the economy, and negative repercussions for Belize. The other zone, at Benque Viejo on the western border with Guatemala, is much smaller (with only around 15 businesses) but suffers from similar problems.
- 2.3 There are no available economic evaluations of the Corozal FZ. There is, however, a 2015 cost/benefit analysis of several firms located at both Corozal and Benque Viejo Free Zones. The sample of firms is large enough to provide a good aggregated assessment of the situation in both Free Zones. That study indicates that those firms confer overall benefits to the economy of Belize. The net gains to the economy ranged from BZD41 to BZD80 million during the 2009-2014 period, or an average of BZD60 million per year. Levels of firm's subsidization via the Free Zones Programme vary by firm, with an average of 8.9% during the 2011-2014 period.²
- 2.4 Given the Corozal FZ's importance as a local employer and these policy contradictions, the Government of Belize (GoB) is seeking help from the Bank to rethink the operation of the zone. The objective of this Technical Cooperation (TC) is to review the existing FZ with a view to generating economic growth and employment in the Corozal District through the optimization of services and operations. The specific objectives are to increase capacity of the Government to identify new areas of export opportunities for the Corozal FZ (e.g. digital services outsourcing), and to simplify the

¹ Corozal Free Zone 2015 Official Prospectus. Belize.

² Final Report, Reforming Subsidies Programme in Belize for Complying with WTO Agreement on Subsidies and Countervailing Duties. Prepared by Preville and Associates Consulting Group, October 2015.

tax system by suggesting adjustments to the regulation and operation of FZs, with a focus on Corozal.

- 2.5 To achieve such objective this TC will generate inputs for an economic development plan for the Corozal District, including detailed guidelines for a new business and tax orientation for the FZ, identification of new potential growth industries and economic linkages between the FZ and the local and regional economy, and a fresh governance framework for public-private coordination in the District. The TC will also provide detailed guidelines for a new regulatory and supervisory institutional framework for FZs in Belize. This endeavor should be framed within broader fiscal constraints and de-risking initiatives. Therefore, proposals would need to be closely coordinated with research that the Bank is generating under other TC projects, particularly regarding de-risking and the fiscal costs of maintaining the FZ regime vis-à-vis economic gains the FZs may yield. This TC is aligned with Belize's IDB Country Strategy 2013-2017, the Ninth General Capital Increase, and the Updated Institutional Strategy 2010-2020.
- 2.6 **Strategic alignment.** This TC is aligned with Belize's IDB Country Strategy 2013-2017, in particular the Bank's support to Trade and Tax Policy (Section 3.18-3.22). This TC is consistent with the Update to the Institutional Strategy 2010-2020 (AB-3008) and is aligned with both the development challenge of Productivity and Innovation, and Economic Integration. In the first place, the activities undertaken in this TC seek to modernize and innovate activities in the Corozal District, ensuring productive linkages between the regional economy and its labor pool, and the FZ. In regards economic integration, this TC seeks to improve the competitiveness of Belize's exports while at the same time supporting diversification of its economy through the expansion into new and innovative services' exports sectors (digital services outsourcing). This expansion will help integrate Belize further into global and regional value chains where it is currently not operating. This TC is also aligned with the cross-cutting theme of Institutional Capacity and Rule of Law, by strengthening oversight and control of operations in the FZ. This TC is also aligned with the Corporate Results Framework 2016-2019 (GN-2727-6) through the professionals from public and private sectors trained or assisted in economic integration indicator. Accordingly, this TC is aligned with the priorities of the Ordinary Capital Strategic Development Program for Integration (RIN).

III. Description of Activities/Components and Budget

- 3.1 The objectives set out above will be developed through the following components:
- 3.2 **Component 1. Export-led economic development for the Corozal District.** This component will finance the preparation of a report which includes:
- a) **Free zone reviewing and repurposing.** (i) Repurpose the Corozal FZ to serve the objectives specified in Section 2 above, which may involve either a revamped free zone or the replacement of the FZ's with alternative institutional arrangements, such as industrial parks, under a new supervisory framework; (ii) assessment and suitability of the incentives framework for the free zone, including any recommendations for optimization; and (iii) general recommendations for the treatment of the Benque Viejo FZ.
 - b) **Regional economic development master plan for Corozal District,** which will include: (i) the identification of new industries and productive linkages (particularly in emerging areas such as value added and digital services outsourcing) between the repurposed FZ and the regional economy, taking into account availability of

human capital, quality of infrastructure, global and regional economic trends and building on international experience; (ii) a proposal for new inclusive public-private mechanisms to provide adequate governance to these initiatives.

- 3.3 **Component 2. Dissemination workshop.** This component will finance a stakeholder dissemination workshop of the report prepared under Component 1.
- 3.4 The total estimated cost of the TC is US\$150,000 and will be financed by the Bank through the Ordinary Capital Strategic Development Program for Integration (RIN) on a non-reimbursable basis.

Indicative Budget

Activity/Component	Description	IDB (RIN)	Counterpart Funding	Total Funding
Export-led Economic Development for the Corozal District	International consultancy firm	142,500	0	142,500
Dissemination workshop	Stakeholder dissemination workshop	7,500	0	7,500
Total		150,000	0	150,000

- 3.5 This TC will be supervised by the Team Leader.

IV. Executing Agency and Execution Structure

- 4.1 This TC will be executed by the Trade and Investment Division (INT/TIN) of the Trade and Integration Sector (INT/INT) of the Bank. The request for a TC was made by the Ministry of Trade, Investment Promotion, Private Sector Development and Consumer Protection during an IDB mission on January 24th - February 3rd, 2017. Given the complexity of the topic, the institutional coordination needed and the Bank's expertise in this area, the Government of Belize requested that the Bank execute this TC. See link [here](#) for letter of request for the TC and the Bank as the executing agency.
- 4.2 **Monitoring and evaluation.** Given that the Bank is executing and there is only one procurement and two deliverables in this TC, monitoring will be carried out by existing Bank's staff and resources.
- 4.3 **Procurement.** The Bank will contract a consulting firm in accordance with current Bank procurement policies and procedures. A procurement plan is included in Annex IV.

V. Major Issues

- 5.1 The following risks and mitigating factors have been preliminarily identified: (i) lack of high quality data on trade and financial flows to and from Corozal FZ, employment, investment and visitors. The Government has committed to devote staff in regulatory agencies dedicated to preparing the relevant data and statistics under a best efforts framework. A preliminary mission confirmed that there are important weaknesses in the data, so this TC will need to identify and highlight these shortcomings. Its analysis will be based on the available information as well and its recommendations will include actions to improve data collection, analysis and dissemination; and (ii) lack of appropriation of these initiatives by the public and the private sector in the Corozal District due to entrenchment of interests. There is clear consensus among both public and private sector representatives consulted during an initial mission on the need for

(a) a revision of FZ rules and (b) a regional development plan for the Corozal District; and the CEO at the Ministry of Economic Development, Petroleum, Investment, Trade and Commerce has committed to mobilize local interest groups to muster support for this project. Although, there is a significant risk that reform might be deflected, current conditions –with growing international pressure to strengthen Belize’s AML compliance and the downturn in Corozal FZ activity are strengthening the political will to tackle vested interests in this area– have created a window of opportunity for the IDB to support effective reform.

VI. Exceptions to Bank Policy

- 6.1 There are no exceptions to Bank policy.

VII. Environmental and Social Strategy

- 7.1 This TC project seeks to generate policy proposals for fostering longer term economic development in the Corozal District of Belize, centered around the Corozal FZ. No negative social or environmental impact is expected. This project has been classified under the category "C" according to the Policy Environment and Safeguards Compliance Policy (OP-703). See [Safeguard Policy Filter](#) and [Safeguard Screening Form](#).

Required Annexes:

- Annex I: [Back to office Report/ Mission Aide Memoire](#) and [Letter of Request](#)
- Annex II: [Results Matrix](#)
- Annex III: [Terms of Reference](#)
- Annex IV: [Procurement Plan](#)

SUPPORT FOR EXPORT-LED DEVELOPMENT IN THE COROZAL DISTRICT (INCLUDING THE COROZAL FREE ZONE)

BL-T1087

CERTIFICATION

I hereby certify that this operation was approved for financing under the **Ordinary Capital Strategic Development Program for Integration (RIN)** through a communication dated June 28, 2017 and signed by Goro Mutsuura (ORP/GCM). Also, I certify that resources from said fund are available for up to **US\$150,000** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, represent a risk that will not be absorbed by the Fund.

Original Firmado

Sonia M. Rivera

Chief

Grants and Co-Financing Management Unit
ORP/GCM

10/25/2017

Date

Approved:

Original Firmado

Antoni Estevadeordal

Manager

Integration and Trade Sector
INT/INT

10/26/2017

Date