

TC Abstract

I. Basic Information of the Project

▪ 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).
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination.	Client Support
▪ Date of TC Abstract:	2/15/2017
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Ministry of Economic Development, Petroleum, Investment, Trade and Commerce
▪ Executing Agency and contact name:	The Inter-American Development Bank (IDB)
▪ IDB Funding Requested:	US\$150,000
▪ Local counterpart funding, if any:	N.A
▪ Disbursement period (which includes execution period):	24 months
▪ Required start date:	April 1, 2017
▪ Types of consultants (firm or individual consultants):	Consulting firm
▪ Prepared by Unit:	Trade and Investment Division (INT/TIN)
▪ Unit of Disbursement Responsibility:	Country Office Belize (CID/CBL)
▪ 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

- 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 80s 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 in particular, on the border with Mexico,

became an important park, with the number of registered companies peaking in 2007 at 414.

- 2.2. Belize's Free Zones, 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 jobs), 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. The vast majority of the 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 uncontrolled, low value-added and sometimes irregular trade and investment, with scarce linkages with the rest of the economy, and negative repercussions for Belize as a whole. 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. 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 aim is to identify how the level of economic activity and employment might be maintained and developed within the broader context of economic development of the Corozal district, in the context of the specific geographic (locational and logistics), institutional (common law) and cultural (bilingualism/ biculturalism) characteristics of the local area and of the country. The objective of this TC is to foster export-led growth and greater trade integration, which will involve identifying new areas of opportunity for Belize within the FZ (e.g. digital services outsourcing), strengthening the economic efficiency and simplicity of the tax system and reducing non-tax barriers by suggesting adjustments to the regulation and operation of FZs, with a particular focus on Corozal. 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.

III. Description of Activities and Results

- 3.1. The objectives set out above will be developed through the following Components:
- 3.2. **Component 1. Free Zone review and repurposing.** This component will finance the contracting of an international consultant to develop a proposal, based on an assessment of the available evidence concerning the nature of current FZ activity, institutional capacities and international context, on how best to repurpose the FZs. This will include (i) how to 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 free zones with alternative institutional arrangements, such as industrial parks, under a new supervisory framework; and (ii) general recommendations for the treatment of the Benque Viejo FZ.
- 3.3. **Component 2. Export-led Economic Development for the Corozal District.** This component will finance the contracting of an international consultancy firm that will prepare a 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 digitized 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.

IV. Budget

- 4.1. The following is an indicative budget for this project:

Component	Description	IADB financing (US\$)	Counterpart funds	Total financing (US\$)
1.Free zone review and repurposing	Individual consultant	35,000	N.A	35,000
2. Export-led Economic Development for the Corozal District	International consultancy firm	115,000	N.A.	115,000
Total		150,000		150,000

V. Executing Agency and Structure of Execution

- 5.1. This TC will be executed by the Trade and Investment Division of the Trade and Integration Sector of the Bank.

VI. Risks

- 6.1. 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 prepare 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 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.

VII. Environmental Safeguards

- 7.1. This technical cooperation 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 is classified Category C.