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ENGLISH

UNITED NATIONS INDUSTRIAL
DEVELOPMENT ORGANIZATION

REPORT ON EXPLORATORY MISSION TO BELIZE 1/

[illegible]

by

P.F. Ryan
Industrial Development Officer
Export Industries Section
Industrial Policies and Programming Division

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I N D E X

1. Introduction

(1.) Terms of Reference

Please see the Project Data Sheet - Annex I

(2.) Action Taken

A. Evaluation of Tenders:

The five consultant firms short-listed had produced offers. These were analysed - Annex II. Technically the best offer was from Sir William Halerow via its Barbados office, but this was some US$12,000 over budget. The next best was from LTD, a US firm, from its Nassau office. This firm was also the first choice of the Development Finance Corporation. However, its professional staff were to spend the fewest man hours of all 5 bids in Belize, and at the highest cost. The tender and construction times given are clearly unrealistic and would be exceeded in practice.

It was recommended that Halerow be asked to reduce their bid if possible.

B. Preliminary Draft Report - Annex III:

This was prepared and copies given to the Resident Representative who was to visit Belize on 8 December 1975.

This deals entirely with the industrial estate proposed at Ladyville.

C. Discussions with the Development Finance Corporation:

Extensive discussions were had with Mr. May Fuller, General Manager, Mr. L. Cuellar, Mr. Hulse, and UNIDO Adviser Mr, E. Tilly in Belize and in Belmopan.

D. Other Meetings:

Calls were made on: Mr. G. Revett Graham, Central Planning Unit, Belmopan Development Finance Corporation Office, Belmopan;
Mr. May Fuller, at Belize and in Belmopan;
Mr. C.H. Sohan, Caribbean Development Bank, Belize;
Mr. R. Faust, Caribbean Development Bank (from Barbados);
Mr. E. Louis, Architect Minister of Works;
Mr. E. Wilson, Reconstruction and Development;
Mr. J. Hall, Chief Engineer, Public Works Department;
Williamson's (Garments) Inc.;

E. Site Visit:

The proposed Ladyville site was visited.

2. Summary

The mission was undertaken between November 26 and 6 December 1975.

The main objective was to assist the Development Finance Corporation with planning of an export oriented industrial estate.

3. Recommendations:

1. The planned industrial estate should really be one offering proper services, since lack of these is a main reason for slow industrial investment, despite generous incentives.

2. Legislation for investment incentives exist, as does financial assistance to prospective investors from the USA (by O.P.I.C.) and from UK (by the O.D.A.), and from other sources.

   The incentives are very little known outside Belize, and consequently largely ineffective. A promotional system to attract overseas investors should be a high priority.

3. The existence of plentiful publicly owned or low cost private land should be exploited for industrial development by planning the Ladyville Industrial Estate on a long term basis, not cramping its site by trying to couple it up with housing projects in too restrictive a manner. Belize has the largest land area of any CARICOM countries and one of the world's lowest populations per acre.

4. The Low Cost Housing project at Ladyville should be clearly separated from the industrial estate, leaving room for social facilities to be developed. Land should be acquired now in the area, or an Ordinance passed to prevent land speculation in the area.

   An attempt to link services of the Estate with Housing will not result in long term economies, since different types of treatment will be required for domestic sewage than for industrial effluent; power requirements differ and so on.

   8 acres is <u>not</u> sufficient for an industrial estate, especially when low cost housing is planned on the adjoining 12 acres, separated only by a road.

5. Since a professional firm of consulting engineers is being selected to plan the industrial estate, they should be briefed not merely to provide three factory "shells", but to lay out basic services for the total 8 acre plot and indicate skeleton of further expansion to 20 acres. Items such as drain digging and road construction should cover the whole 8 acre site, which in the long run, will prove much cheaper than doing these jobs piecemeal as required.

   The main expense, of constructing advance built factory bays with power, water and effluent facilities can be budgeted long term in accordance with proved demand.

   Lack of such facilities is the main constraint delaying industrial investment.

6. The Resident Representative, Mr. K. Singh, indicated that when the Consultant Engineering firm had been contracted, a second visit to Belize to assist in briefing and guiding the Project Leader of the firm would be desirable. This would assist in planning for the tenders for site construction work together with the Public Works Department and the local representative of the Caribbean Development Bank, and ensure that the project was comprehensively planned overall bearing in mind the probable availability of further finance from CDB and other sources in later years to expand the project. It would avoid the situation occurring whereby an expenditure of B$1,040,000 results only in two factory shells with no facilities, isolated next to a housing scheme.

4. <u>The Ladyville Industrial Estate - Site Visit</u>

At the site, I was under the (false) impression that the area driven around was all reserved for the estate.

Later, it appeared from the drawing dated 21.3.1975, by the Department of Housing and Planning that 110 houses are also planned for this small area, in total about 33 acres. On 15 acres 110 houses are planned and on only 8 acres, at least 3 factories.

It is strongly recommended that this area be reserved <u>either</u> for housing <u>or</u> for the estate, but not for both.

There being no real land shortage, and the price of land being low, there is no reason not to plan for a clear separation of the two projects. This will avoid much distress later, and is far more likely to attract potential investors.

It will also be less expensive in the long run since when the estate construction's plant is on site it can prepare drains and roads and basic services for at least 8 acres almost as cheaply as for 3 factory shells. Items such as effluent disposal can be sited well away from the factory buildings.

Similarly, the housing project, which has a separate budget and timing, if carried out on a separate plot will not interfere with construction on the estate. Residents will not be disturbed by constant construction work. Roads can be paved and sealed and will not be constantly dug up as new factory shells are built.

The residents will not be exposed to an industrial atmosphere, industrial noise, traffic and other inconvenience if they are separated from the estate by a road and trees.

It should be noted that separate treatment systems are usually required for industrial effluent and domestic sewage so that there is no saving by combining the two. No doubt water tanks and main power transmission lines can be common to both projects, as can other services such as telephone lines, autobus parking.

The establishment of security to prevent pilferage is made easier when the two projects are clearly separated.

Finally, both have room to develop without recourse to complex moves across public roads. Land speculation risks are also reduced.

5. Background

Tremendous efforts are being made by the Government to improve infrastructure and to move away from an economy dependent largely on primary goods exports and on capital investment based on aid grants.

These include for example a project to construct a deep water jetty where ships can unload direct, which would seem to be a basic necessity for real commercial and industrial progress. In 1972 a feasibility study estimated the cost at US$7.2 million. In 1976 this cost will exceed $10 million, and further delay for this essential project will further escalate the end cost.

By mid July 1975 over $10 million was being spent on infrastructural projects, mostly roads.

The lack of infrastructure is the main cause of lack of investment. Other factors, such as political uncertainty are comparatively minor.

The renewed activities of the Development Finance Corporation backed by loans from Canada, Caribbean Development Bank and the United Kingdom, is a powerful force in development. Credit is available to agriculture, industry and tourism in sums from US$1,500 to $100,000 at less than commercial bank rate (8-10%).

The example of Williamsons, exporting about $2 million garments, employing 450 shows that such enterprise is possible. The fact that it has been in Belize for 14 years, but no similar "off shore" enterprise has set up since, demonstrates that tax incentives are not enough. The main lack is infrastructure, secondly management.

The construction of an industrial estate at Ladyville 10 miles from Belize town, near the Airport is an attempt to remedy the lack of infrastructure and to catch up with the facilities offered elsewhere in the CARICOM area.

6. Notes on Factory Construction

A. The normal type of industrial building, with a fixed area, fixed by its structural steel work, of transoms and outer walls, with associated ventilation, lighting, storage and vehicle access problems is not suitable for many assembly type industries and is very wasteful of space and therefore expensive.

B. Expansion flexibility

A feature of assembly industry is that such industry already has established markets, which normally expand, since such businesses which do not expand usually collapse!

These businesses have certain operations which cannot be automated and are therefore labour intensive. Electronic components and garments are most frequent.

Expansion and change of demand require frequent changes in machine set ups and lay-outs. Within a traditional "bodega type" factory, extensions become difficult and expensive.

C. Modular Advance Built Factory Bays

Such buildings are constructed in units of about 20,000 or 7,000 square feet, with all trunking on exterior walls, so that extensions only require the removal of interior walls. Firms forecasting rapid expansion are allocated one unit but pay a retainer on one or more adjacent unit.

Units are built, one or two of each size, in advance of demand. Once occupied, another is built.

This system incorporates economies of land and services.

Details have been left with D.F.C.

7. Import Substitution

It is surprising to note that the creation of more important substitution industries is still being contemplated, in view of the progress of the Caribbean Common market, which will make such industries less viable than ever. In view of the well known difficulties involved in such projects, it is indeed strange that effort is not concentrated on the main, exporting agro-industries and tourism. These two are obviously the main means by which the country will be able to generate eventually sufficient private capital inflows to break with dependence on external aid funds.

8. Unemployment and Investment Incentives

Although agro-industry is the main potential industry, and the main export sector with potential, there remains a problem of urban unemployment in Belize, estimated at 15% of the labour force, or about 4,500.

Due to the skewed structure of the population increase its rate (2.9% net) and the fact that it is almost 50% urban, the number of unemployed between the ages of 15-20 can be expected to rise. Emigration, already a problem, especially of management "brain-drain", will also get worse unless well paid jobs become available.

One solution, found successful elsewhere, is to provide potential investors not merely tax incentives but a fully serviced industrial estate where space may be rented on a flexible basis. (The most striking example is in Bataan, Philippines, where there is no tax incentive, yet in 2 years 1973-74, 38 industries now employ 6,000 people. Minimum wage US$1,50 per day capital cost to mid 1975 US$40 million).

One operation alone, Williamson's, employs 450. 10 more, similar operations would employ directly the present number of unemployed in Belize. The spin off or multiplier effect would create up to 9,000 jobs in related services; transport, insurance, shipping and forwarding, packaging, hotels, construction, manufacture of construction materials, factory services and supplies and so on.

"Offshore" largely assembly industry, increasingly searches for locations where the following amenities are provided:

In order of importance these are:

Low cost, easily trainable labour
rentable, advance built factory space
good communications by sea, air, land, telephone, telex
rapid procedures, i.e. rapid processing of project applications for investment, plus rapid handling of problems during and after establishment
availability of managerial talent which can be trained to take over from expatriate managers (at lower cost)
rapid and efficient banking services not obstructed by complex regulations
brief and simple investment and rental regulations
tax remission or accelerated depreciation.

It will be noted that tax incentives are at the bottom of the list. This is because almost all such locations offer tax holidays. Taxation is only a small percentage of product cost, and sometimes tax has to be paid, at least on declared profits, in the country of origin.

Of the above, although availability of management will be a problem at first, this will not always be so if emigration can be braked.

The main constraint which an industrial estate remedies is the lack of infrastructure. But the estate should not consist merely of factory "shells". Services must be provided as part of the investment incentive. For example, the D.F.C. should have a visitor reception office at Ladyville.

A full set of recommendations are included in Annex III.

9. <u>Concessions and Industrial Estate Leases</u>

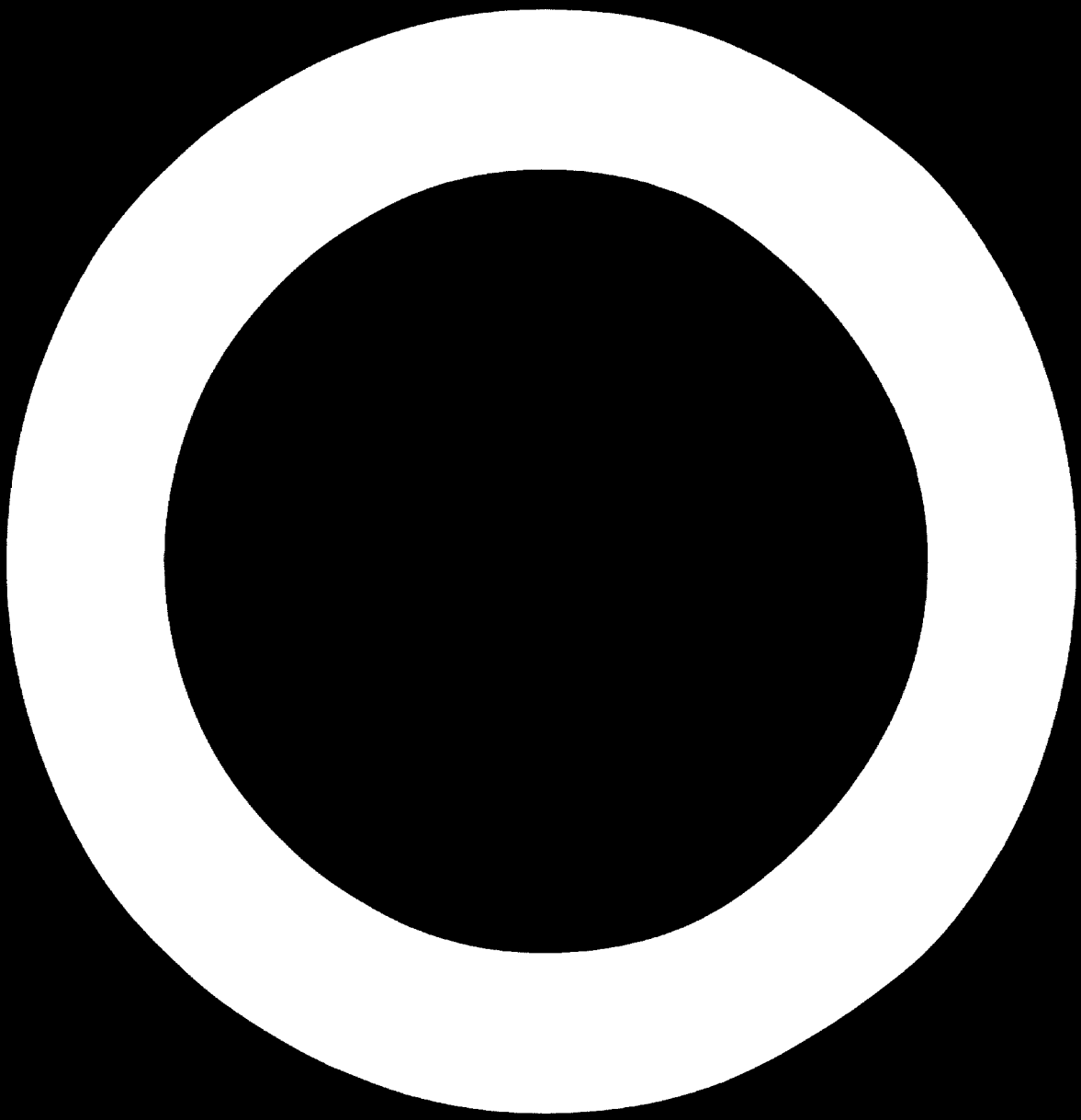
Some confusion seems to be caused by the use of the term "Concession" which in effect is merely a licence to operate a business, whether in logging, fisheries, tourism or industry.

For some reason, probably historical, it has been taken to be something different from the normal system, common to many countries, whereby, in return for an investment, government permission is given to trade/manufacture.

A "concession" is ruled by the Development Incentives Ordinance No. 14 of 1960, wherely the "concessionaire" must register a company in Belize. On government approval a Development Order is issued which includes the dates of an (automatic) tax holiday. This is then published twice in the Government GAZETTE, to give an opportunity for objections.

In practice such a procedure is basically similar to the licence to operate given by most governments which welcome private investment. The lease of premises on an industrial estate should be in addition to this procedure, and while giving an opportunity to the Industrial Estate operating company to control the investor, the lease itself should be brief and in simple, non-legalistic language.

Thought should be given to abolishing the term "concession", which is unfamiliar to many, smacks of colonialism, and implies "pioneer status", or granting of a state monopoly and protectionism. As this may put off the modern inventor, and since the term has out-dated connotations, it should be dropped gradually from new legislation.



ANNEX 1

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION,

UNITED NATIONS DEVELOPMENT PROGRAMME

[illegible]

[illegible]

1. Reference Data

Country:	Belize
Project Title:	Exploratory mission on Export Processing Free Zone
Project Number:	[illegible]
Origin and Date of Request:	Resident Representative's letter dated [illegible] September 1975
Purpose of Project:	Exploratory mission to review the latest situation with regard to the possibility of establishing an Export Processing Free Zone in Belize.

2. Background Information

The Development Finance Corporation is exploring different means of stimulating industrial development and investment in manufacturing industry, especially for exports to United States and Canada.

Although an industrial estate already exists, it may be necessary to construct another, laid out according to the needs of a modern export processing free zone. Project [illegible] includes in its terms of reference the preparation of cost data for export oriented ventures, and all proposals linked with the possibility of an export processing free zone would be co-ordinated by the Development Finance Corporation.

The provision of fellowships for candidates to attend specialised training courses in EPZ techniques at the Shannon Free Airport, Ireland, would supplement the mission.

Coordination is also required with projects [illegible] and IS/BZE/006 (Assistance in programming and industrial policies).

This mission will also take into consideration the earlier project BZE/71/003 of the Development of Investment Incentives Act (1966) and the processing of concessionaires proposals.

3. Description of the Project

A UNIDO staff member specialising in Export Processing Free Zone developments will make a brief visit to Belize to assess the latest situation on the spot. Having conferred with the UNDP Resident Representative and the Senior Industrial Development Field Adviser, he will:

a) study the present situation of the physical facilities and advise on the cost of developing these, with due regard to the availability of labour, power, water and other services;

b) study the present situation regarding investment incentives and the legislation existing and recommend further action;

c) advise on the [illegible] administrative, management and training requirements;

d) propose an appropriate programme of technical assistance as required, based on the preliminary conclusions so that these can be further considered by the Government and a definite course of action decided upon.

4. Project Budget

Components	Duration	Cost
One consultant on Export Processing Free Zones (Bilingual staff member)	1 m/m	$3,000

5. Request Approved

for UNIDO
Date:

for UNDP
Date:

23.9.1975
P.F.Ryan/ip
EIS/IPPD

AGENCY	COST	TOTAL (1) MAN HOURS	PROFESSIONAL	TECHNICAL	OTHER	AVG COST PER MAN HOUR	TOTAL PROJECT TIME (2) (MONTHS)	A SURVEY DESIGN PLAN	B TENDER APPROVAL PREPARE	C CONS. CONST	D MAINT. TAKE
A & B CONSULTANTS BRAZIL	74,500 (Fees) 12,500 (Disburse) 1,500 (Bil Dest) B[illegible],500	2,074	1,454	166	-	$35.971	(124) 84	14	[illegible]	50	20
SIR M. HALCROW & CO. BARBADOS	33,750 (Fees) 15,000 (Disburse) B[illegible],750	2,150	1,400	750	-	$38,953	[illegible] (21[illegible])	28	15	39	28
L T B NIGERIA	B[illegible],570	1,576	1,492	84	DRAUGHTSMEN (600)	$47.271	56 (2[illegible])	25	5	26	52
LEE TENG TAIWAN	B[illegible],360	2,325	725	1,400	DRAUGHTS (500)	$34.963	66 (118)	14	8	44	52
WOLKER ANDERSON JAMAICA	B[illegible],128 (3)	1,980	700	1,120	DRAUGHTS/STENO (1920)	$32,360	64 (116)		7	28	52

(1) Excludes draughtsmen and typing

(2) Figures in brackets include MAINTENANCE PERIOD

(3) Excludes travel, subsistence, etc. of at least B[illegible],000

ANNEX II

PRELIMINARY REPORT

TO

DEVELOPMENT FINANCE CORPORATION.

BY

P.F. [illegible] (LIMITED).

Tenders for organisation were seen to construct an 8 acre industrial estate, with 3 factory shells.

Please See Evaluation Extract.

AWARD.

Of the 5 short listed bids, the one which will produce the best result, in terms of buildings, and trouble free services, is that of Sir W. Halcrow.

It is felt that they could agree to reduce the offer somewhat from B$88,750 if it were pointed out that this is $24,250 in excess of the next best bid.

If the budget of B$74,500 has to be kept to, then the next best bid is that of LTD Norman. They will inevitably take longer than the time they have indicated to complete the work, and it can be expected that supervision will not be very thorough. This may well lead to extensive repair and maintenance work in the first few years.

DEFECTS

At least 10% and better 15% of fund payment must be withheld for 52 weeks after all works are completed on site. Subsequent defects will then be paid for by deduction from this amount.

ON SITE MAINTENANCE & ADMINISTRATION.

It is recommended that a workshop and an administration office are added to the scheme now. If this is not done, a great deal of wasted time will be caused both to investors and the DFC.

It is standard practice for an industrial estate to have a workshop, not only for repair and maintenance, but also because small scale industries cannot be expected to have all the equipment such as lathes, bar cutters heavy drills etc. which they need.

With no administration on site, those renting the factories will have to rely on the telephone, and friction will result. This in turn will probably lead to the first investors giving negative reports to enquiring potential investors.

Without an office in which to receive visitors who arrive at the airport, a strange impression will be given to potential investors, who will not be encouraged by this apparent lack of support.

OCCUPATION POLICY

A clear policy should be agreed on what kind of investor is wanted at Ladyville and also what kind will be welcome at the estate planned at the PORT OF BELIZE.

It is recommended that the Ladyville project be reserved for investors who guarantee 100% export.

Reasons for this are that the provision of costly facilities should be given to those investors who will employ large numbers, and who already have established overseas markets. Such investors can be relied on to start operations quickly and to keep on expanding. Their main motivation for investing is to obtain access to trainable lower cost labour. (Without this, several labour intensive industries cannot survive - e.g. electronic components, garment assembly).

Such investors can be relied on to keep the estate looking like a model industrial estate. This in turn will encourage new investors, who will be impressed by the appearance of the Estate.

Small scale, purely local investors, to supply the local market with products should not be allowed plots at Ladyville, as there is ample land for such projects elsewhere. There is an industrial estate at Belmopan for such ventures.

An area of land on the outskirts of Belize should be set aside for small scale industries, until the new Port Development project is built.

CUSTOMS CHECKS

Another reasons for not mixing export industries with purely local industry is that this complicates the Customs Control.

Customs control must be basically a book control (as at Williamson's), but a physical control of trucks in and out must be at least possible. If half the investors are exporting (virtually in bond) and half not, confusion will arise. Delays will occur at the Estate Exit, and all traffic movements will be delayed. Alternatively, if some minimum checks are notcarried out, then irregularities can occur.

There is little risk of smuggling by export investors because:

a) They have export orders to meet.

b) They produce items which are easily recognisable, and often not useful on their own.

c) They will, being efficient, run their own factory security system.

d) They will not wish to lose their privileges by allowing their employees to abuse them.

e) There is no history of such abuse at the existing Export Processing Zones.

APPEARANCE OF ESTATE

To promote an industrial estate overseas it is necessary to print a brochure and to send out invitations to investors to visit the estate.

It is therefore essential that the Estate preserves the highest standards of appearance since investors only take an interest in estates which visibly demonstrate good management.

RENTAL

Investors with rather expert business can be relied on to pay a reasonable rent regularly.

No arrears of rent should be tolerated in the Estate.

CASH FLOW FORECAST.

Ill. 5 provides at present draft figures which show the following:

OUTGOINGS	1976	1977
Engineering fee	B$ 80	$
Water, Power, Roads	100	
3 Factory Shells	780	
Land	40	
Maintenance		30 annually
Interest	40	40 annually
Loan repayment	-	- starts year 6
	1040	70
Income		
Loan	960	
Govt. Subsidy	120	
Sales of developed land	-	60 and in 1978 & 1979
Rentals		64- increases to 96 after 5 years
	1080	124
Annual Cash flow	+40	+54

My Comments on the above are:

(1) It is virtually impossible to run a properly serviced industrial estate with anything but a subsidy. Attempts to finance the estate by changing steadily increasing rentals are self defeating.

(2) There is no provision in the above figures for:
(i) Salaries of administration and maintenance staff.

(ii) Investment promotion activities.

(iii) Capital development fund for building more advance factory units.

(3) If the 3 factories are to be "shells" with no facilities they will cost about B$18 per square foot or B$360,000.

The Roads, Water & Electric power line will certainly exceed B$100,00.

Maintenance should be about 2% of cost of buildings.

Buildings should not be bare shells but equipment with power terminals, water taps and lavatory fittings, office partitions etc.

(4) No land should be sold within the estate. If this is done control will be totally lost.

(5) The following buildings are essential on this type of industrial estate and must be provided for :-

Administrative Office

Visitor Reception Room

Labour Enquiry Office

Security Guards Room

Customs post at gates

Bank

Post Office with Telex

Maintenance Workshop

Insurance Freight Office

Lorry drivers rest room

Canteen

Contractors Planning Office.

SERVICE OF INDUSTRIAL ESTATE

While it is appreciated that investors can be obtained without providing efficient services, it is much easier to attract them and retain them, with a serviced estate.

The factory shells should have power lines, and plumbing installed. Industrial investors do not wish to get involved in much works when they are renting not buying.

A plan to show the provision of buildings (one or two only at first) should be drawn up together with the Consultant Engineering firm, to be appointed shortly.

SIZE OF LADY VILLE SITE

The drawer headed "proposed subdivision of Lady ville low cost housing project" prepared by the Department of Housing & Planning and dated 21.3.75, shows the site occupied 2/3 by housing and only 1/3 by the Industrial Estate.

A far better effect is achieved by reserving all of this site for housing & acquiring an adjacent, larger site, for the estate. An industrial estate needs at least 10 acres and should have another 10-20 set aside for expansion.

Further housing will be required at Lady ville and, therefore, more land should be acquired now adjacent to the existing plot.

The industrial estate should be separated from housing by a road and by trees.

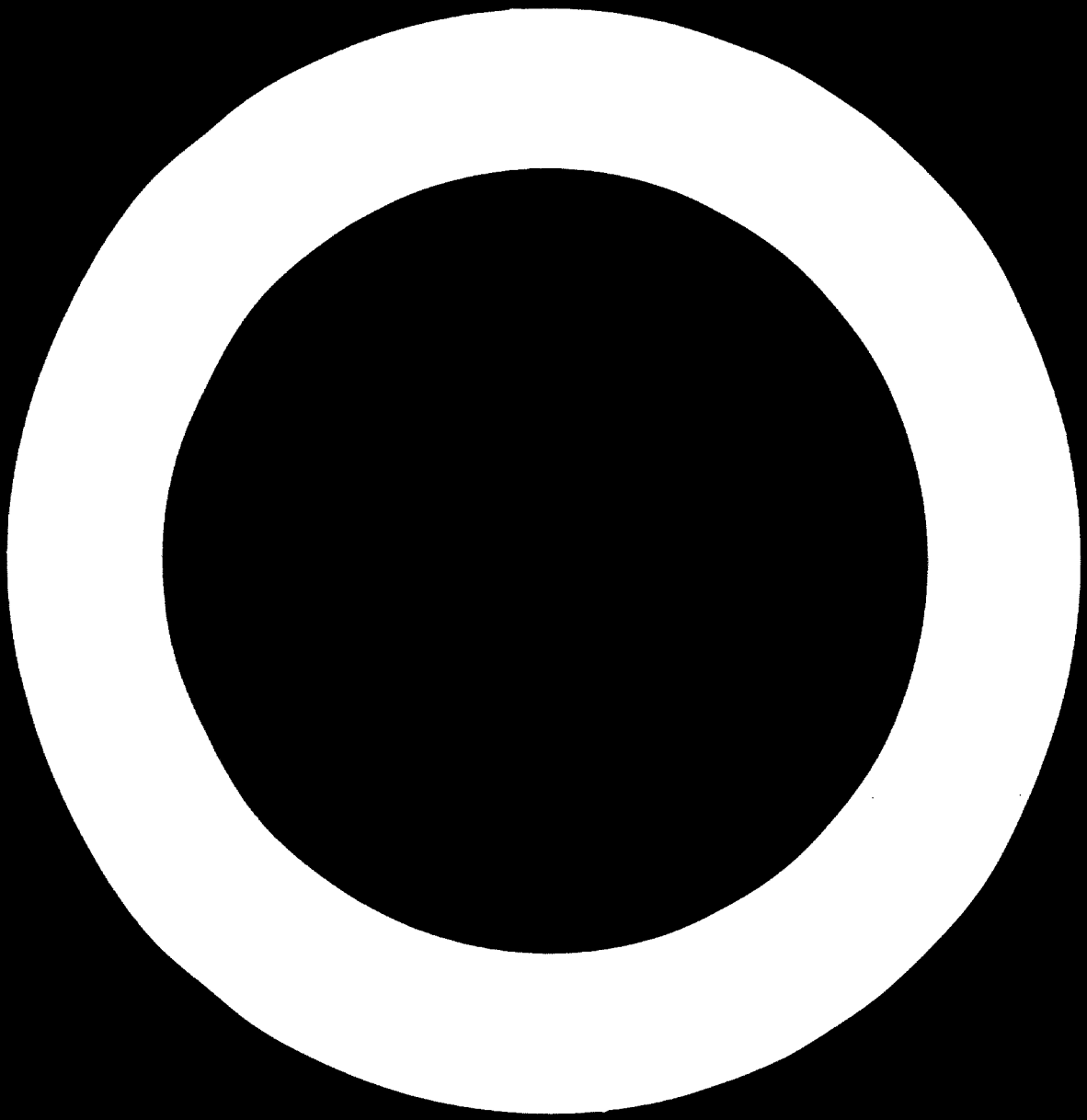
The [illegible] that on this require [illegible] space than the [illegible] industrial [illegible]. [illegible] half the space reserved should be [illegible]

[illegible]

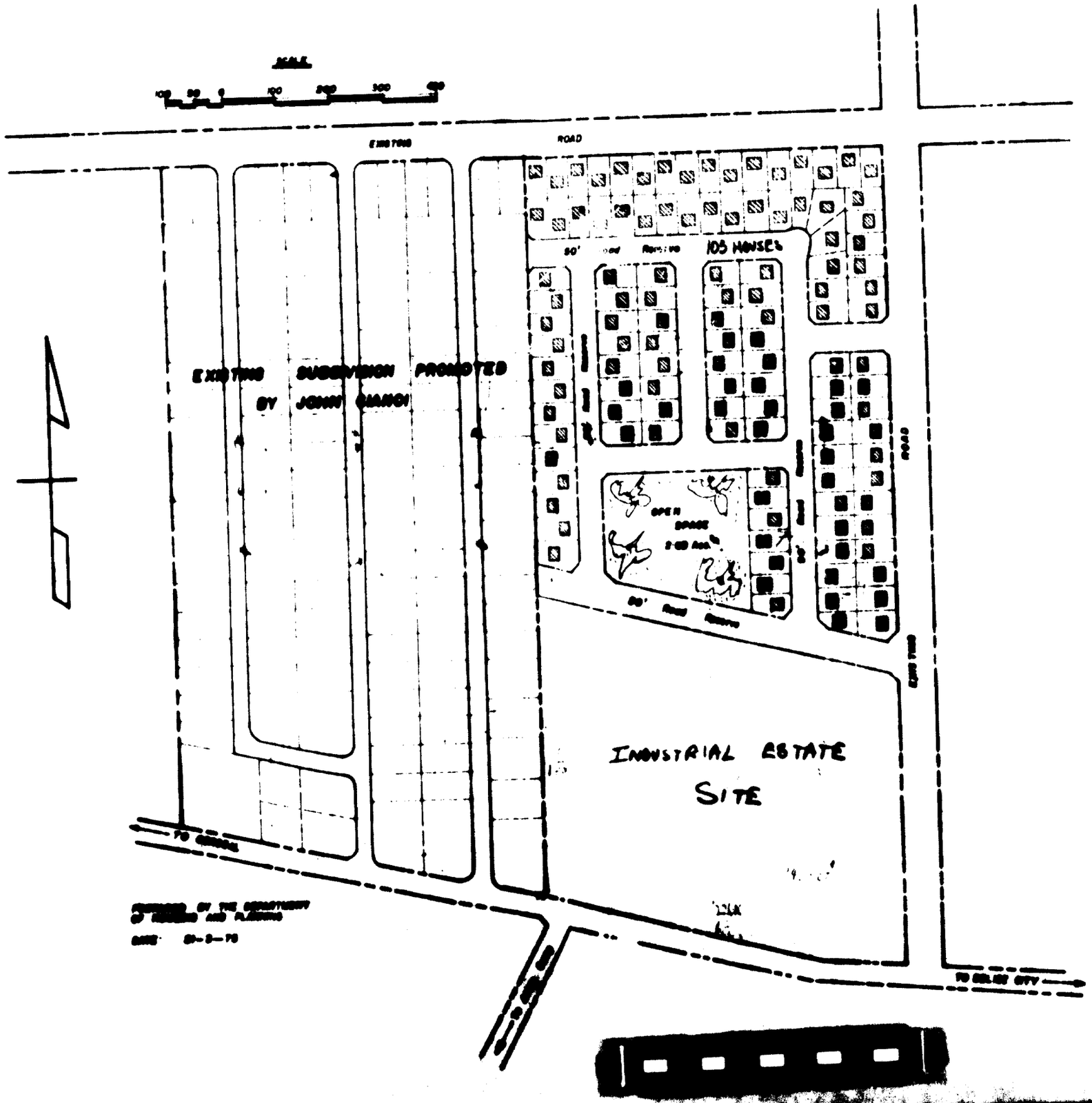
The land [illegible] recommended that [illegible] required.

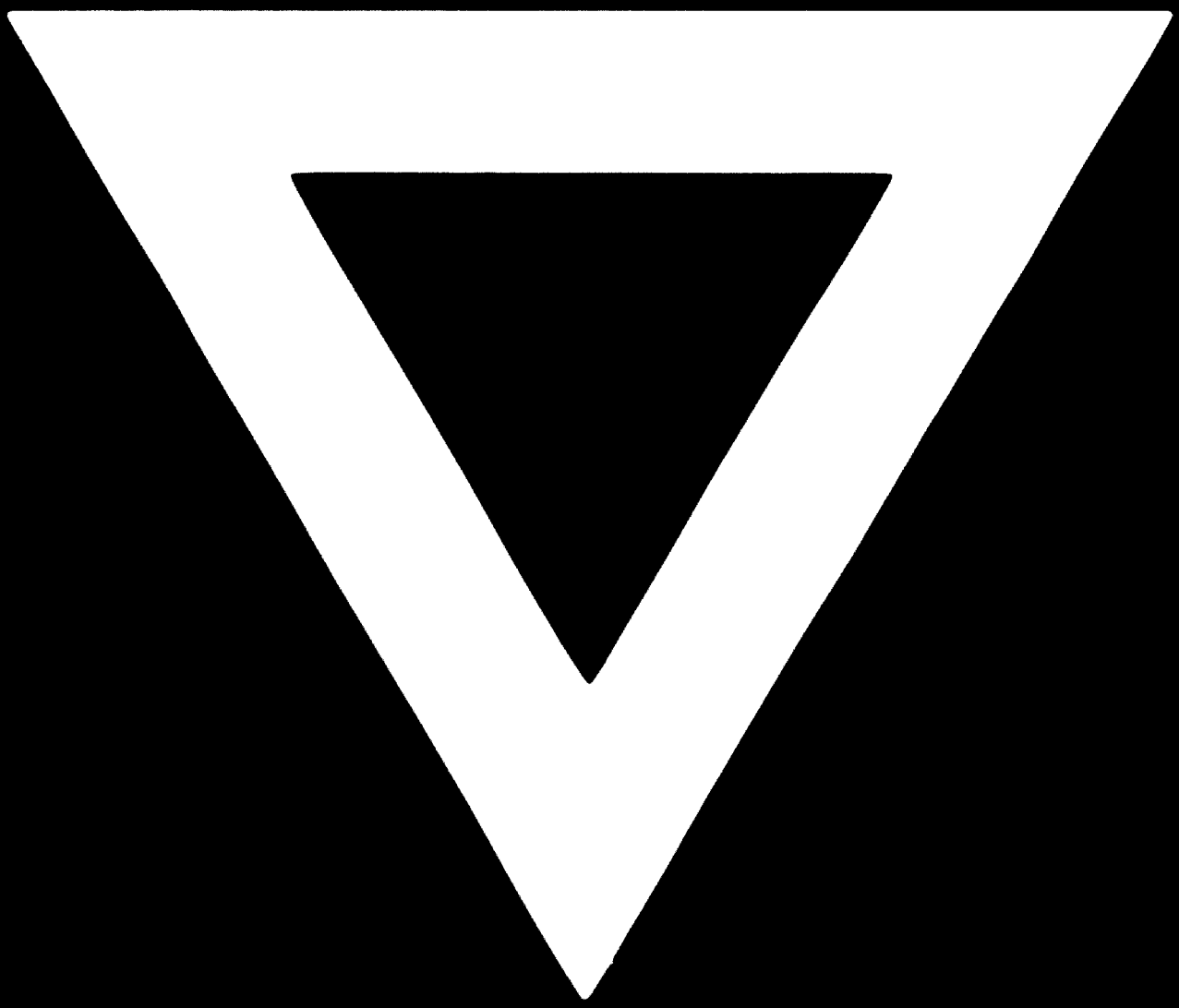
[illegible]

Industrial effluent requires sufficient treatment to dome stic sewage, which means that the [illegible] (pre-tertiary) at Lady ville. This is [illegible] the industrial estate.



PROPOSE SUBDIVISION OF LADYVILLE LOW COST HOUSING PROJECT





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