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Access to Finance for MSMEs in Belize

Challenges and Opportunities

Winsome Leslie
María Cecilia Deza
Ian McMillan
Gabriela Andrade
Ana María Zárte Moreno

Inter-American Development Bank
Country Department Central America, Haiti,
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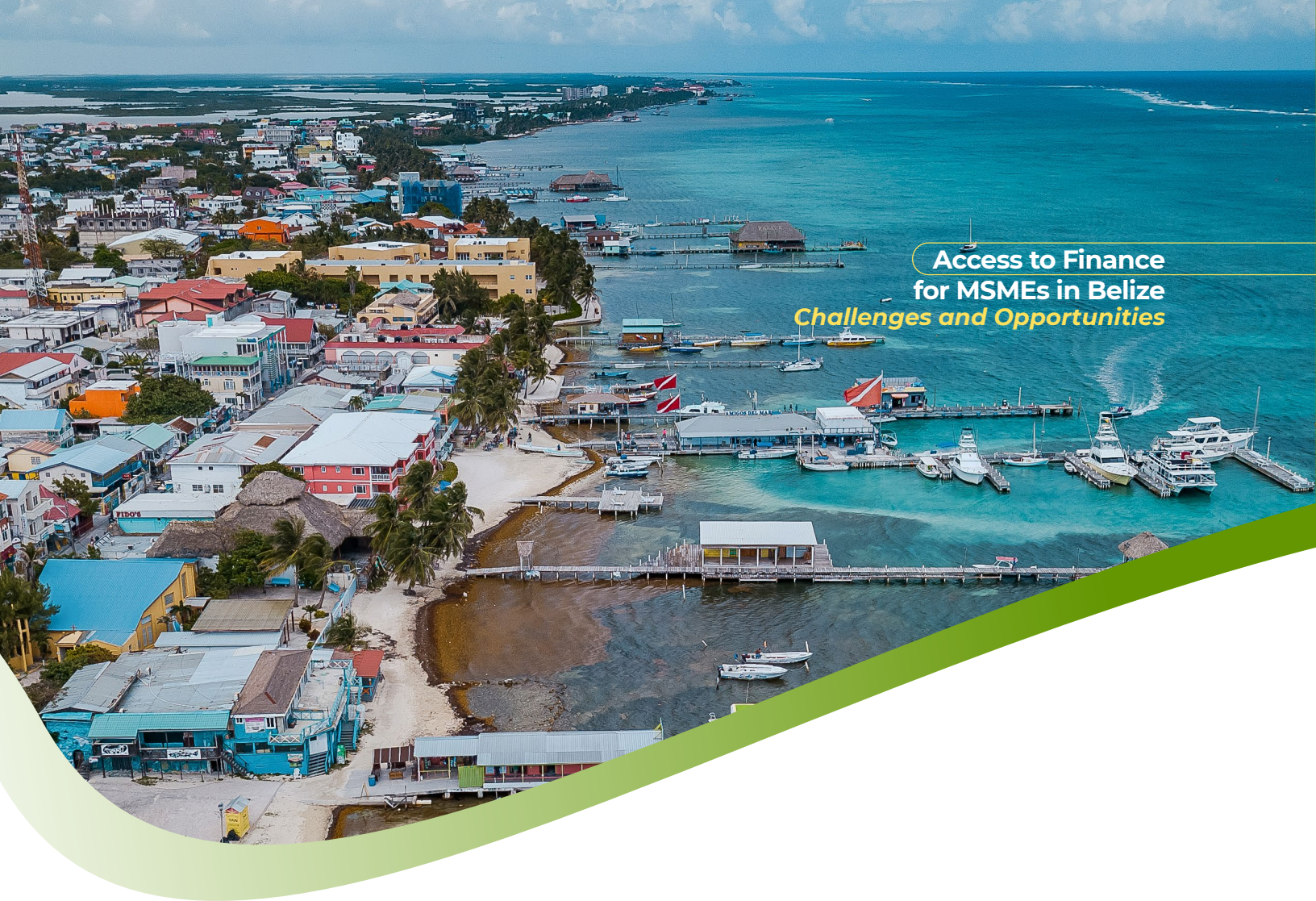


María Cecilia Deza: mdeza@iadb.org

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Abstract

Belize has experienced rapid growth in the years following the COVID-19 pandemic. Sustaining this momentum requires structural reforms to catalyze private investment. Micro, Small, and Medium Enterprises (MSMEs), integral to the economy and employment landscape of Belize and similar nations across Latin America and the Caribbean, encounter challenges hindering their productivity and impeding their contribution to growth. Despite a landscape characterized by motivated nascent entrepreneurs, many businesses struggle to maintain operations and grow over time. Evidence suggests that one of the factors behind business failure and restricted growth potential in Belize is the lack of access to productive financing. This limitation curtails MSMEs' investment capabilities, undermines their ability to engage with international markets and integrate into global and regional value chains, and disproportionately affects women, who constitute the majority of MSME owners in Belize.

This report delves into the factors within the ecosystem influencing both the supply and demand for financing for MSMEs. It offers strategic recommendations aimed at unlocking the potential of MSMEs through enhanced access to finance. Key policy proposals include widespread use of a standardized definition of MSMEs to streamline interactions within the ecosystem. Additionally, the report emphasizes the importance of preparing firms for financing and mitigating risk to incentivize financial institutions to serve this segment inclusively.

Access to Finance for MSMEs in Belize

*Challenges and
Opportunities*

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Introduction and motivation

Belize has grown significantly in the post-pandemic era, but achieving sustainable and robust growth requires structural reforms to enhance private investment as an engine for growth. The expansion of entrepreneurship and the Micro, Small and Medium-sized firms (MSMEs) base have been a result of the transformation of the Belizean economy in the last decades, and with special intensity in recent years, as the economy recovered strongly from the covid-19 pandemic.

MSMEs have the potential to boost productivity and sustainable growth if they are given the conditions to grow. Despite the lack of granular data, it is known that the contribution of MSMEs to GDP and employment is important, representing almost 90% of the private sector activity, and employing more than half of the labor force. At the same time, MSMEs face important challenges to grow and become export-oriented or integrated into bigger markets. About two thirds of MSMEs in Belize are necessity-based rather than opportunity-based. And those that are opportunity-based face several challenges that hinder their growth potential, such as the regulatory environment for doing business, exposure to natural disasters and climate-related events, the lack of enabling infrastructure, and a limiting innovation ecosystem, among others.

MSMEs in Belize face several challenges that impact on the mortality rate of businesses, in particular constraints to access to productive financing. According to the 2016 Global Entrepreneurship Monitor (GEM), Belize has a higher rate of the population engaging in the process of starting a business than the LAC average (18% vs. 12%, respectively), and a greater percentage of entrepreneurs whose businesses survive the nascent stage (10% vs. 7%). However, Belize also has a much higher business mortality rate compared to rest of regions in the world (18.8% in Belize;

9.6% in LAC). From the several factors that can lead to a firm exiting business, one of the most important hurdles is found to be access to finance, which is commonly recognized by the MSMEs as a major limiting factor for conducting and growing business in Belize. When individuals that had a business are asked for the reasons of exiting the business in the previous year, almost a third of them cite problems with finance as the main reason. About 20% mention that the business is unprofitable, which could be related to financial problems as well. This finding is confirmed with recent data from the IDB's Firm, Performance, Gender, and Innovation (FPGI) survey conducted in 2019 and 2020, where 15% of respondents mention that the biggest obstacle for the operation of businesses in Belize is access to finance. Insufficient access to finance restricts MSME's capacity for investment, which consequently jeopardizes their potential to enhance productivity and expand business operations as well as their chances of engaging with international markets and integrating into global and regional value chains.

This document analyzes the factors of the ecosystem that influence the supply and the demand for financing for MSMEs and provides recommendations to unlock the MSMEs' potential through increased access to finance. With that aim, it is structured as follows: the first section offers an overview of the economic context in Belize, its evolution, and medium-term growth perspectives. The second section characterizes the MSME sector and the data limitations that prevent an in-depth analysis of this sector. The third section presents a summary of the most important challenges facing MSMEs based on a review of the available data, literature, and government documents and strategies, emphasizing the financing conundrum and gender and diversity considerations. The fourth section discusses the methodology of focus groups and surveys utilized to gather the perception of relevant stakeholders on factors affecting supply and demand for financing. The fifth section describes the main findings, and the sixth section offers recommendations under the framework of the Theory of Change.

1.

Context and public policy framework

The Belizean economy is depicting strong growth in the post-pandemic era, but the impact on social indicators has been mixed. After dropping almost 14% during the pandemic, GDP in Belize grew by 17.9% in 2021, 8.7% in 2022, and an estimated 4.5% in 2023, becoming one of the fastest growing countries in Latin America and the Caribbean (LAC). GDP growth was driven largely by the rapid recovery of tourism. Despite growth, improvement in social indicators has been mixed. Income per capita has grown, while poverty and unemployment reduced. In 2022, GDP per capita surpassed pre-pandemic levels (currently at US\$6,678). According to the last monetary poverty assessment in 2018, 52% of Belizeans lived in poverty, compared with 41% in 2009, while 9% lived in extreme poverty (16% in 2009). The Gini coefficient increased from 0.38 to 0.49 in the same period. Multidimensional poverty is estimated at 35%, above the LAC average.¹ Thanks to the economic recovery, between September 2021 and September 2023, unemployment rate decreased from 9.2% to 4%. However, participation rates at 58% are among the lowest in LAC countries (70% on average), pointing to frictions in the labor market. From a more structural point of view, income per capita in Belize is still lower than Central America and Caribbean peers. In 2022, Belize's GDP per capita was US\$6,678, compared with a Central America average of US\$7,849 and a Caribbean average of US\$14,592.

Sustaining growth and social progress requires addressing long-standing challenges, especially linked to persistently low private investment. Growth is expected to stabilize at 2.5% in the medium term. Sluggish growth prospects are attributed to limited private investment and human capital that hinder productivity gains and competitiveness. Private investment as a ratio of GDP is lower

¹ A word of caution should be noted, as both measures are not comparable: the latest poverty estimate in Belize uses a multidimensional approach, while the LAC average is a monetary poverty estimate.

in Belize compared to LAC or Southeast Asia economies (13%, 17.6% and 22.3%, respectively in the period 2004-2018, on average), while labor productivity in Belize is 40% lower than the LAC average. Also, the labor force lacks the skills demanded by the job market of the future, and some 37% of the labor force is informal. Therefore, structural reforms and improvements in the business climate – increased access to credit and easing barriers to entry of new businesses -- will be key to recovery.²

The private sector – largely MSMEs – will be central to achieving these goals, given their critical contribution to income and, employment. Evidence shows that financial sector development not only boosts growth³ but that is also associated with reductions in inequality and small companies' productive participation in the formal economy through, among other factors, the enhancement of small businesses' access to financial services.⁴ Furthermore, it facilitates the allocation of capital to more lucrative projects and creates incentives for technological innovation.⁵ Therefore, a comprehensive and coordinated approach must be taken to support the development and growth of these businesses.

Several key policies and reforms have been proposed and implemented to incentivize private investment, to enhance MSME productivity and growth. Importantly, the government of Belize recently published the “Belize Investment Business Climate Action plan” (BIBCAP),⁶ an ambitious strategy designed to spur economic development and innovation by 2030. BIBCAP, which is an amalgamation of the Export Competitiveness Roadmap (ECR), the Micro, Small and Medium Enterprises Strategy & Roadmap (MSMESR), and of the National Investment Policy and Strategy (NIPS), builds upon the government's recently released overarching Medium-Term Development Strategy (MTDS). The purpose of BIBCAP is to outline the actions of the various governmental, quasi-governmental and non-governmental stakeholders acting under the umbrella objective of private sector-led economic growth.

2 IMF. Belize 2022 Article IV Consultation Staff Report.

3 See Masoud and G. Hardaker (2012).

4 See Čihák, M. and R. Sahay (2020).

5 See Buera, F. et al. (2011).

6 BIBCAP details 266 specific actions and 67 key outcomes, highlighting a commitment to inclusivity and innovation in driving economic progress. BIBCAP encompasses strategic actions designed to bolster the MSME sector, including: (i) the development of a direct investment and marketing strategy tailored for MSMEs, providing frameworks for external market access, and fostering youth entrepreneurship; (ii) efforts to eliminate the gender gap in MSME ownership and the expansion of data collection to better understand the MSME landscape; (iii) development and utilization of standards for MSMEs, promoting the sector within the tourism and Business Processing Sector (BPO) industry, and aiming to reduce the presence of MSMEs in the informal sector through formalization initiatives; (iv) support to green MSMEs, improving the ease of doing business, and increasing the use of e-commerce platforms; and (v) expansion of government procurement allocation for MSMEs, promotion of formalization along with sound management and governance practices, and access to affordable bank loans. Importantly, financial market development, with a special focus on alternate financing methods and instruments, is another critical area, as is the elimination of demand-side issues affecting access to finance. Concurrently, the plan seeks to boost export finance-specific products and services that are already being developed and that can be developed to cater to MSME needs, while continuing efforts to rationalize the existing tax regime to boost MSME growth. BIBCAP also includes accommodating MSME access to designated processing areas and establishing a national business incubation center to promote early-stage entrepreneurial initiatives and the revision of trade agreements to enhance MSME participation in global markets.



Characterizing the MSME ecosystem in Belize

The first challenge in understanding the MSME problematic in Belize is the adoption of an **official definition by the government**. In the last two decades, there were several changes in the definition of MSMEs in Belize. The first definition developed in 2006 was based on the number of employees, sales, and investment, and by 2012, this was expanded to include manufacturing space.⁷ This definition has not been used across the board, and these differences have made it difficult to do proper comparisons of similar firms across sectors or to structure policies and programs targeting specific MSME segments. The National MSME Strategy and Roadmap for Belize 2022-2025 proposed a new simpler definition, now accepted by the Government (table 1). More recently, in 2023, the Fiscal Incentive Act was amended to include a revised MSME definition.⁸ The new definition, presented in table 2 considerably changes the thresholds for each category, increasing the number of enterprises accessing public incentives for these sectors. Considering the different definitions and current economic and policy landscape, a strategy needs to be put in place to identify an overarching definition and mainstream it across all the stakeholders in the entrepreneurship ecosystem.

7 See National MSME Strategy and Roadmap for Belize, p. 28.

8 See Fiscal Incentives (Amendment) Act, 2023. Available at: <https://www.nationalassembly.gov.bz/wp-content/uploads/2023/11/Act-No.-41-of-2023-Fiscal-Incentives-Amendment-Act-2023.pdf>

Table 1. MSME definition in Belize National MSME Strategy and Roadmap

MSME Classification	Number of Employees	Annual Sales BZ\$
Micro	Less than 5	50,000 - 99,000
Small	5 to 19	100,000 -299,000
Medium	20-50	300,00 - 500,000

Source: National MSME Strategy and Roadmap for Belize.

Table 2. Fiscal Incentive Act Amendments - MSME definition

Indicator	Employees	Annual sales	Total assets
Micro	<10	<\$200,000	<\$200,000
Small	10-49	\$200,000 -< \$6 million	\$200,000 -< \$6 million
Medium	50-300	\$6 million - 30 million	\$6 million - 30 million and

Source: Fiscal Incentives (Amendment) Act, 2023.

Linked to the issue of definition, is the larger problem of the lack of comprehensive and consistent supply and demand side data on MSMEs, to ensure the proper dimensioning of the private sector and related financing gaps. Data collection frameworks in this regard can be classified as (i) supply-side, reflecting data from financial service providers through financial institution surveys and regulator surveys; and (ii) demand-side, reflecting data stemming from the users through household or other special demand surveys. Some progress has been made with demand side surveys implemented for several policy documents related to the private sector. In addition, the Statistical Institute of Belize (SIB) has been conducting surveys of businesses as well – in 2016, and a COVID-19 impact survey in November 2020, with another one planned for 2024. Various organizations dealing with MSMEs - SIB, the Companies Registry, the Belize Tourism Board (BTB), the Belize Tax Service, the Social Security Board, the Ministries of Tourism and Agriculture – collect data, but there is no comprehensive database, consolidating the various data sources, that is disaggregated by gender, industry, geographic location, indigenous population, among other criteria. Commercial banks and credit unions are also challenged in properly classifying their MSME loans, which are not tracked automatically according to business size or gender. From a regulatory perspective, the Central Bank of Belize (CBB) does not yet require or mandate the reporting of supply side MSME data from the formal financial sector.

The data available, regardless of strict definitions, suggests that MSMEs account for most of the private sector activity and employment in the country.⁹ As mentioned earlier, MSMEs in Belize account for over 90% of the private sector activity, and well over 50% of employment in the economy.¹⁰ Within the MSME category, microenterprises account for almost 70% of private sector firms, and most of them report revenues of less than BZ\$40,000 (US\$20,000) annually.¹¹ Many of these micro firms are start-ups or early-stage with less than 5 years old. They tend to be

⁹ This document utilizes the MSME definition proposed in the new National MSME Strategy and Roadmap for Belize. See Table 1.

¹⁰ See Medium-Term Development Strategy 2022-2026 p. 25, and Building a Resilient, Sustainable and Inclusive Belize, IDB, December 2020, p. 18.

¹¹ The Social Security Board estimates that as of 2021 there were 11,346 businesses in Belize, including 7,380 micro businesses and 2,942 small businesses.

necessity-based and informal, operating under a registered business name, but not registered for tax purposes.¹² These necessity-based entrepreneurs are in business to earn a living and make ends meet, potentially due to the loss of a job or reluctance to enter the formal workforce. Only 30% of MSMEs are opportunity-based in the sense that they are in business to take advantage of market opportunities.¹³ These are, in turn, the MSMEs with higher potential to contribute to productivity and economic growth. However, the inability to grow of most firms explains the dramatic pyramid structure of the MSME sector in Belize, with most firms in the “micro” category, and progressively smaller numbers of firms in the “small” and “medium” categories. It is not uncommon to see companies in business for 10 years or more in Belize, which have not been able to appreciably increase revenues.

There is a geographical and sectoral concentration of MSMEs. Of the total number of registered businesses, about a third (36.1%) of them are in Belize District, versus only 4.9% in Toledo District, where over half the population is indigenous (Mayan descent). Most MSMEs are concentrated in wholesale and retail (18.3%), accommodation and food services (15.6%), and agriculture (14.1%) sectors,¹⁴ in turn vulnerable to economic shocks due to climate change or the volatility of the global environment.

¹² UNDP. National MSME Strategy and Roadmap for Belize. P.46

¹³ Ibid. p. 47.

¹⁴ Statistical Institute of Belize. Impact of COVID-19 on Business Establishments Survey. February 2021, Table 2; SIB. Business Establishments Survey, 2016.



The challenges facing Belizean MSMEs

MSMEs face a multitude of challenges that have been intensified by the covid-19 pandemic. The MSME sector in Belize has borne most of the economic impact of the covid-19 pandemic, deepening existing structural challenges. The tourism and agricultural sectors as well as wholesale/retail and fisheries were particularly hard hit. The surveys of households and businesses conducted in 2020 and 2021 by the SIB, the UNDP, and the IDB, together paint a picture of how firms were able to adapt, or not, to the crisis. Sixty-four percent of microentrepreneurs had decreased revenues, compared to just under 60% of small businesses. Half of the businesses surveyed reduced hours and 40% of firms cut wages. Many businesses closed, with 26% of them closing for 4 weeks or more.¹⁵ In response, the government launched in 2020 an MSME support program (box 1).

¹⁵ UNDP. Socio-Economic Impact Assessment Results. 2021, p. 16.

Box 1. 2020 Covid-19 MSME Relief Program

To mitigate the effects of the covid-19 pandemic on the MSME sector, in mid-2020 the government launched an MSME Support Program as part of a second phase of covid-19 relief efforts. The program included the following elements:

- ◆ BZ\$2.5 million: Grants to micro-enterprises across the country, with a cap of \$2,500 each.
- ◆ BZ\$7 million: Wage subsidies to encourage firms to retain employees on the condition that these businesses keep their employees' Social Security contributions current.
- ◆ BZ\$5 million: Soft-loan component limited to eligible small- and medium-sized enterprises to assist with working capital in preparation for reopening and accelerating production – up to BZ\$15 million for small businesses and BZ\$25 million for medium-sized businesses. These loans were channeled through the National Bank of Belize.¹⁶

In March 2021, the Government of Belize amended the Central Bank of Belize (CBB) Act and authorized the CBB to provide emergency assistance - programs and facilities - to the financial sector. This included encouraging financial institutions to increase grace periods for repayments on MSME loans, to refinance loans, and to grant waivers on late loan payments as needed, particularly in sectors adversely affected by covid-19 such as tourism.¹⁷

Also, the CBB temporarily relaxed its loan provisioning rules, lowered cash reserve requirements, and reduced the interest rate on its loans to domestic banks from 11.5%¹⁸ to 10% in March 2021 and 9% in March 2022. These forbearance measures expired in December 2022.

In partnership with the Government, the CBB launched the Emergency Business Support Program (EBSP) in November 2021 to provide financial support to businesses in the productive sector, especially tourism, affected by the pandemic, via a special purpose vehicle, Covid-19 Financing Limited. US\$25 million was made available through low interest rate loans at 4.5%, through participating commercial banks and the DFC. The financial institutions would screen applicants and extend their loan funds up to 90% of the loan, based on risk. EBSP funds would cover the remainder of the loan.

In addition, and as part of broader actions to respond to the pandemic and its aftermath, the IDB approved in 2021 the “Global Credit Program for Safeguarding the Productive Sectors and Employment in Belize”, with the objective of supporting the sustainability of MSMEs as employment providers in Belize after the covid-19 crisis through enhancing access to production-oriented finance through the DFC. The IDB approved US\$15 million under this program, with TaiwanICDF co-financing with concessional resources (US\$5 million).

MSMEs in Belize face similar bureaucratic and other barriers to business growth as firms elsewhere in the Caribbean. These challenges have been well documented in several recent studies and policy papers on Belize in particular, the National MSME Strategy and Roadmap for Belize (2022), and the Socio-Economic Assessment (SEIA) supporting the development of the strategy. The key challenges to be described in this section are business climate, access to markets, and infrastructure, and, especially, access to finance.

Despite efforts to improve the business climate for firms in Belize, challenges remain, particularly for MSMEs. According to the latest World Bank Enterprise Survey (WBES), MSMEs still find

¹⁶ See <https://www.pressoffice.gov.bz/government-of-belize-announces-the-msme-support-program/>

¹⁷ Socio-Economic Impact Assessment - COVID report Belize 2020 p. 25.

¹⁸ <https://www.belize.org/wp-content/uploads/fis-covid-19-recommendations-to-financial-sector.pdf>.

themselves facing a time-consuming and somewhat inefficient system. It takes several days to register a company, and the major agencies involved in formalizing a business - the Companies Registry, Social Security Board, and the Belize Tax Services - are not all in the same location and do not share MSME data. This lack of integration compels businesses to submit identical information to each agency, amplifying the administrative burden. However, individual agencies are progressing and making their operations more efficient. The Companies Registry, for example, has moved online as of December 2022 and uses social security numbers for verification of business registration.

The tax system has improved, but some aspects of its design still impose obstacles to the operation of businesses. Since 2021, businesses can now pay taxes online; however, changes are still needed in the tax regime to make it more favorable to MSMEs. Business taxes are currently levied on gross revenues, rather than on profits. Customs procedures for MSMEs importing goods are time-consuming, inefficient, and expensive. The government approved a Fiscal Incentives Act in 2022 to provide a 4-year waiver for MSMEs formally registered for certain categories of goods,¹⁹ and an amendment in 2023 with a revision of the definition of MSMEs, as noted before. In addition, the MTDS calls for the elimination of all remaining barriers to doing business in Belize by the end of 2023.

MSMEs seeking to export face complex licensing procedures, and high costs of production inputs, particularly if they are being sourced overseas. Trade facilitation tends to favor larger companies. A virtual license application system (BELAPS) is being implemented, but further steps need to be taken to lower trade transaction costs. More needs to be done through BELTRAIDE to provide capacity building activities and training for export firms and to improve access to markets. This includes facilitating compliance with international sanitary and phytosanitary standards.

Access to infrastructure and technology services is uneven in Belize, which negatively affects businesses mainly in the rural areas. MSMEs are also affected by high electricity and energy costs, which in turn increases the cost of doing business.²⁰ E-commerce solutions are not developed in Belize, posing substantial obstacles for MSMEs in executing cross-border transactions and export-oriented logistics, which also complicate and inflate the cost of reaching international markets. Moreover, MSMEs, and all firms in general, have limited knowledge about the use of technology and digital solutions in their business. The index of digital adoption from Belizean firms is 0.58 in 2016, while the LAC and Caribbean averages are 0.61 and 0.67, respectively.

The innovation ecosystem in Belize does not support MSME development. Belize is behind its peers in LAC in terms of innovation, which is a key element in international competitiveness and economic growth. According to the Global Innovation Index (2013), Belize ranked 102 out of 142 countries. Furthermore, according to Compete Caribbean's PROTEqIN Database, only 7% of firms in Belize are innovating.²¹ An innovation eco-system and an innovation culture have not yet developed in Belize, including educational institutions engaged in Research and Development (R&D) and incubators supporting new ideas from start-ups. This is a major constraint for opportunity-based entrepreneurs, as there is no support system to enable them to bring innovations to the market and to scale. Innovation concepts such as design thinking have been introduced as "one-off" specialized training courses offered by BELTRAIDE. Start-up Tools such as the Business Model Canvas and Lean Canvas are tools on the BELTRAIDE website, but there is no online guidance to encourage their use. While the COVID-19 pandemic resulted in some MSMEs adopting technology,

¹⁹ Businesses must be formally registered with the Companies Registry and the Belize Tax Service. https://www.BELTRAIDE.bz/uploads/6/4/9/6/64967361/belizeinvest_fiscal_incentive.pdf

²⁰ In 2022, electricity rates were increased from \$0.39 to \$0.41 cents per kilowatt-hour, compared to the Caribbean average of \$0.25 per kilowatt hour. <https://www.sanpedrosun.com/community-and-society/2022/01/06/electricity-rates-going-up-consumers-and-puc-call-out-bels-utility-practices/>; <https://blogs.worldbank.org/latinamerica/clean-energy-caribbean-triple-win>.

²¹ Innovation Pact Belize. November 2022. PowerPoint presentation.

these were mainly small businesses with access to the financing to do so. The MSME Strategy proposes an increase in R&D expenditures to 0.5% of GDP (US\$9 million) by 2025, focusing on R&D in priority sectors of agriculture and tourism to promote MSMEs' comparative advantage and competitiveness. Also, an Innovation Pact has been developed, endorsed by the Prime Minister to be voluntarily signed by the private sector, together with an innovation diagnostic to enable firms to determine where they are on the innovation spectrum.



3.1. The access to finance problematic

Domestic credit to the private sector in terms of GDP is lower than the LAC and Caribbean average. The financial system in Belize is comprised by 4 domestic banks, 8 credit unions, 3 international banks, 9 insurance companies, 66 pawnbrokers and moneylenders, 5 remittance companies, and 2 non-commercial public financial institutions - the Development Finance Corporation (DFC) and the Social Security Board.²² In 2022, domestic credit as a percentage of GDP was 42.8%, while the LAC, Caribbean, and world averages are 57.1%, 45.2%, and over 100%, respectively.²³ This evidence suggests that there is ample room to expand the supply of credit and to deepen financial inclusion. Several factors can explain the low levels of financial inclusion, such as the concentration of financial services in urban areas, high levels of poverty and, therefore, financial literacy and financial inclusion, and informality - in 2021, more than half of microenterprises in the SEIA survey had registered a business name, but had not registered for corporate tax, or completed the other steps to registering a business.²⁴ Steps in the right direction were taken with the launch of a National Financial Inclusion Strategy (NFIS)²⁵ for the 2019-2022 period.

Interest rate spreads have been decreasing over time, and they are in line with LAC averages. The two largest banks in Belize in terms of assets concentrate 65% of market share. As the NFIS points out, this level of concentration can mean higher interest rates than would be the case otherwise

²² Belize, National Financial Inclusion Strategy 2019-2022. p. 12.

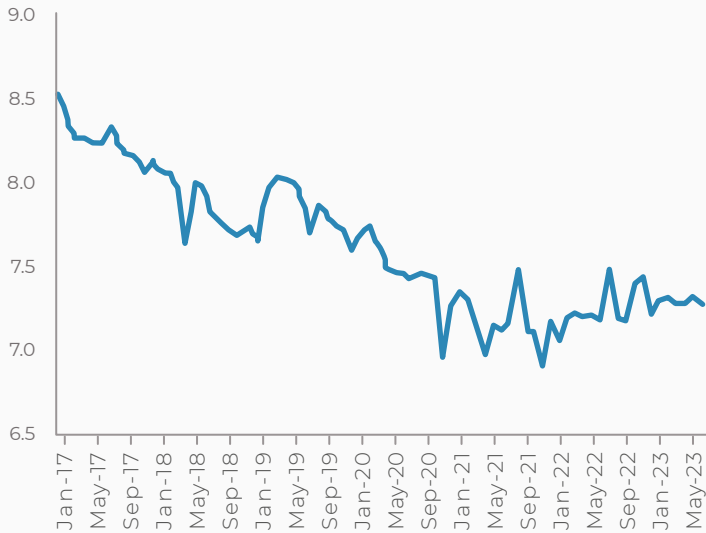
²³ World Bank, <https://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS>. Belize NFIS 2019-2022 p. 14. IDB Invest, How Has Access to Credit Been Affected by the Pandemic in Latin America and the Caribbean. <https://idbinvest.org/en/blog/development-impact/how-has-access-credit-been-affected-pandemic-latin-america-and-caribbean>

²⁴ SEIA, p. 46. The six steps can be found on BELTRAIDE's website: Registration of Business Name with Companies Registry; Registration with Belize Tax Services, Social Security, obtaining a trade license if needed and registering intellectual property.

²⁵ The National Financial Inclusion Strategy (NFIS) envisions an inclusive financial system where all Belizeans, including MSMEs, can safely access the range of financial products and services appropriate for them- payments, credit, savings, insurance. The Strategy seeks to address all 3 aspects of inclusion: Informed Usage, Accessibility and Quality, and sets a target of increasing the number of adults with a bank account from 66% in 2019 to 80 % in 2022. The Strategy therefore goes together with efforts to increase demand for financing and to increase access to finance for MSMEs. Implementation of the Strategy has been delayed due to COVID, but there have been some gains in 2021, in terms of: a) access points per 1,000 adults - 75.9 in 2018, versus 86.2 in 2021; b) access points per 1,000 adults km² - 7.7 in 2018, versus 8.48 in 2021; and c) FI customers using online or mobile banking - 17.20 percent in 2018, versus 26.33% in 2021. All three indicators have surpassed 2022 targets.

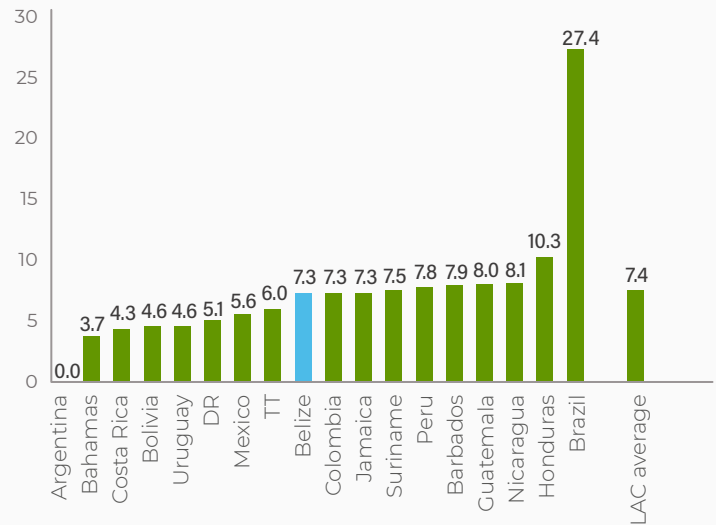
and therefore more limited options to “shop around” on the part of MSMEs.²⁶ Weighted average lending rates at the end of 2022, were between 7.5% and 9.8% depending on the institution. As figure 1 shows, there are still significant spreads between lending and deposit rates, although these spreads have been decreasing over time. According to CBB data, the lending/deposit spread is currently 7.3%, which is a further decline from 8.5% in early 2017.²⁷ This level is in line with the LAC average, which currently stands at 7.4% in 2020 (figure 2).²⁸

Figure 1. Spread between (weighted) average lending and deposit interest rates for banks (pp)



Source: Central Bank of Belize.

Figure 2. Interest rates spread in LAC (pp)



Source: World Bank Development Indicators.

Additionally, banks enjoy high levels of liquidity. There is enough liquidity in the system to significantly address the access to finance challenge. Excess liquid assets are 96% above the secondary reserve requirement, and excess cash reserve is over 186% above the primary (cash) reserve requirement.²⁹ The SEIA survey (2022) found that collectively the banks in Belize had US\$430 million in liquidity available for lending.³⁰ However, lending has been consistently concentrated in personal loans, mortgages, and education loans, which account for the largest share of the loan portfolios of the banks and of the credit unions in general. This landscape points to issues that show that Banks with high liquidity may still avoid lending MSMEs due to perceived risks, regulatory barriers, and the high cost of managing small business loans.

As mentioned, despite the favorable conditions for financing to MSMEs, access to finance has been identified by over half of MSMEs in Belize as a major pain point, based on international data. In the GEM Report for 2016, the last year in which Belize participated, the country had one of the lowest scores in the region for financing entrepreneurs. This survey found limited funds from

26 Belize National Financial Inclusion Strategy, 2019-2022, p. 13.

27 CBB, Statistics Table – Belize: Major Economic Indicators.

28 Ibid., p. 14. <https://tradingeconomics.com/belize/bank-lending-deposit-spread-wb-data.html>. IMF data as cited in The Global Economy Com. - https://www.theglobaleconomy.com/rankings/lending_deposit_spread/Latin-Am/

29 The CBB uses secondary (liquid) and primary (cash) reserves requirements as an indirect monetary policy tool. Ratios were reduced to 21% and 6.5% respectively in 2020. Currently, average liquidity almost doubles the minimum required liquidity.

30 UNDP, SEIA p. 15.

the government for start-ups.³¹ Only small grants (B\$2,000 – BZ\$5,000), for these new companies, whether necessity or opportunity-based are available from pitch competitions such as the MSME Road Show, or in some instances through BELTRAIDE. Other options, other than family and friends, are subsidized loans from the government through covid-19, and MSME support programs from multilateral institutions, loans from financial institutions (banks, credit unions) or moneylenders, with usually a high cost. The GEM survey highlights that Belize had the highest level of business failure in LAC mostly due to lack of financing, cash flow problems and lack of profitability.³² Most businesses in Belize are early-stage microenterprises (2-5 years old), and this is precisely where financing is needed for growth and sustainability, and where financing institutions are most hesitant to lend because of the risk.

Box 2. Policies and programs to tackle common MSMEs' access to finance obstacles

As explained in detail in the IDB's Long-term Financing Sector Framework Document, different market and policy failures explain MSMEs' limited access to finance in the region, even in the context of favorable conditions such as high levels of liquidity. LAC financial intermediaries' perception of increased credit risk in MSME lending, and the nature of these segments, translates into a lower supply of credit and higher costs when reaching these segments. This perception is mainly explained by: "(i) a lack of performance records and internal procedures for generating quality financial information; (ii) low levels of capitalization and a lack of collateral and guarantees; (iii) high informality rates and poor financial literacy; (iv) higher operating costs for financial intermediaries when lending at smaller scales; and (v) lower returns relative to other business segments."³³ These conditions are worsened by the shallowness of the banking sector and capital markets which results in short-term, costly, and non-diversified offers of financial products and services. As this document illustrates, MSME financing in Belize also reflects these hurdles and faces critical barriers from the banking sector perspective as well as structural limitations in terms of capital market-based alternatives for this type of funding.

In this context, governments, through targeted public interventions, contribute to the creation of an enabling environment for the realization of MSME's contribution to the economy and society. Well-designed and implemented public policies address market failures in MSME financing through the promotion of information exchange among market participants, including improving a credit risk culture, and encouraging healthy competition and new entrants. Based on international experience and evidence, some examples of policies and programs commonly used in tackling MSME's access to finance are:

- a. Build institutional capacity and promote systematic public-private dialogue for effective public intervention.
- b. Design and review regulatory frameworks to ensure the proper functioning and transparency of financial markets - considering their evolving nature.
- c. Develop effective collateral and insurance systems to allocate risks efficiently, including movable collateral.
- d. Create cost-effective credit reporting systems covering SMEs- Credit Bureaus or Registries.
- e. Establish guarantee schemes to encourage lending to underserved populations or segments, promote economic diversification, or encourage economic recovery, among other policy objectives.

³¹ GEM Report Belize 2016, p. 32.

³² GEM Belize Report, 2016, p. 20.

³³ See IDB. Long-term financing Sector Framework document. Connectivity Markets and Finance Division. Available at: <https://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=EZIDB0000577-1986696881-32>.

- f. Develop insolvency regulations and procedures to aid productive firms in moments of distress and expedite the exit of non-viable firms.
- g. Habilitate specific financial instruments such as concessional loans, guarantees, and capital market financing instruments designed considering the nature and restrictions of MSMEs or vulnerable populations. Consider the value of the demonstrative effect of Public Development Banks (PDBs) on the private financial sector.
- h. Establish enabling conditions for fintech ecosystem development (including digital identity considerations, data protection, and cybersecurity).
- i. Establish initiatives to promote and facilitate innovation in financial markets. When a critical mass of fintech innovation is present as well as basic enabling conditions are met, consider regulatory innovations.

Financing is limited also for established businesses that want to scale operations. FIs overwhelmingly rely on collateralized lending, specifically fixed assets – real estate – land or buildings – or a bill of sale and highlight the lack of reliable credit information for product development. These are limiting factors in terms of access to finance for many businesses, especially women-owned companies who traditionally have less collateral than their male counterparts, and young entrepreneurs, who generally have no assets. In Belize, the use of traditional sources of collateral – first and foremost real estate- seems to be part of a cultural bias toward fixed assets, which is also the case across the Caribbean. The NFIS addressed these barriers by prioritizing the creation of a Credit Registry and the establishment of a Moveable Collateral Registry to increase access to consumer credit information. Following through, in 2023 Belize enacted the Credit Reporting Act. The act allows for the creation of a credit reporting system within the financial system and setting forth disposition on credit reporting and credit reporting services, and protection of consumer information, among others. As for the collateral registry for movable assets, a draft project exists. Prioritizing this initiative would transform the credit market landscape, ultimately benefiting the Belizean productive sector. Evidence shows that collateral registry for movable assets has positive effects in improving access to bank finance, which in turn tends to benefit greatly smaller firms.³⁴

Financing instruments present elsewhere in the LAC region such as crowdfunding, supply chain financing, and mezzanine financing, are not yet available in Belize. Currently, capital markets are underdeveloped in the country, with no stock market at present, therefore options such as angel investing are non-existent. The Securities Act, enacted in November 2021 sets the framework for the development of a capital market in Belize, by regulating the issuance and sales of securities, and instituting investor protection. It is also a first step in facilitating equity investment as a MSME financing option, but work will have to be done with both small businesses and local/diaspora investors to build awareness and interest in this type of financing. Figures 3 and 4 below illustrate the range of financing options that optimally ought to be available in Belize. As a complement, figure 6 lists the products commonly used by MSMEs in the LAC region to access funding through capital markets.

³⁴ Love, Inessa; Martinez Peria, Maria Soledad; Singh, Sandeep. Collateral registries for movable assets: do their introduction spur firms' access to bank finance (English). Policy Research working paper, no. WPS 6477 Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/731881468314344960/Collateral-registries-for-movable-assets-does-their-introduction-spur-firms-access-to-bank-finance>.

Figure 3. Financing options for necessity-based firms

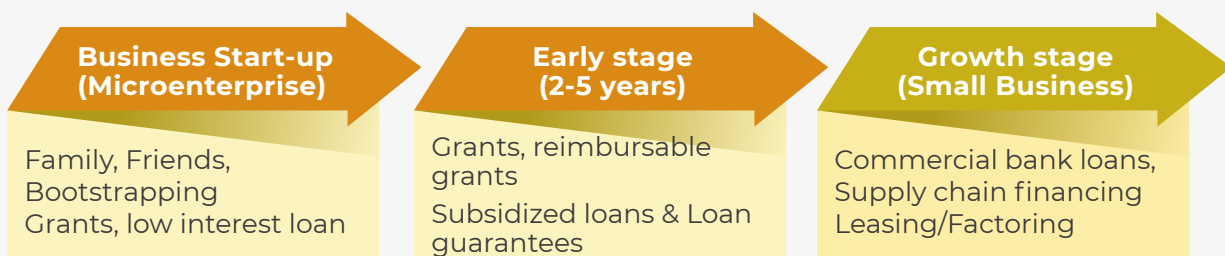
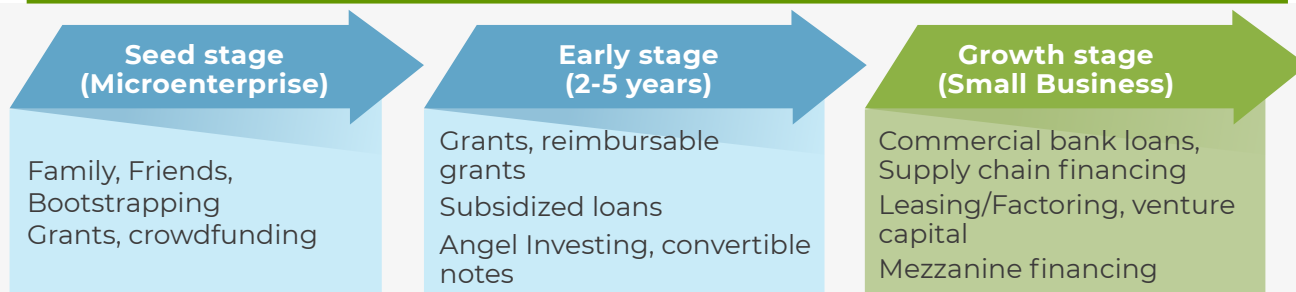


Figure 4. Financing options for opportunity-based firms



Source: own elaboration.

Table 3. Products commonly used by MSMEs in the LAC Region to access funding through capital markets

Category	Products	Purpose
Debt-based	<ul style="list-style-type: none"> Term loans Mini-bonds Invoice/trade finance Checks Crowdfunding 	These products are generally used to support the funding of working capital of the MSMEs in the short term (less than one year). Mini-bonds can be used to fund long-term investments in fixed assets with up to six years maturity.
Equity-based	<ul style="list-style-type: none"> Junior exchanges Crowdfunding Revenue sharing 	Institutional investors can provide equity through junior equity markets specifically focused on MSMEs or through private firms (fintechs) that can help raise equity funds. Exchanges have started to partner with these firms to increase their reach into the MSME market.

Source: Altman, E; Sabato, G. 2023. The Role of Capital Markets in Funding MSMEs in Latin America and the Caribbean. Inter-American Development Bank. Available at: <http://dx.doi.org/10.18235/0005188>.

Financial literacy is a major factor in the access to finance conundrum Belize. Financial literacy is a barrier to inclusive finance in frontier markets, particularly in rural areas. Research has shown that knowledge about various types of financial products and services as well as personal finance concepts such as saving and budgeting increases take-up and can help move businesses as well as individuals into the formal economy. In 2019, only 46.5% of adults were aware of basic financial system concepts. The data shows that this number fell in 2021 to 37.8%, while the target in the NFIS is 65%. Moreover, the NFIS estimates that 34% of the population is unbanked which hinders formal entrepreneurship and the pursue of business growth opportunities, also affecting the perspective for MSME productive financing.

Despite being widely identified, it is a challenge to quantify the extent of the financing gap for MSMEs due to the lack of supply and demand side data. The MSME financing gap in Belize cannot be accurately calculated, given the lack of granular MSME data in the country. The MSME Finance Database from the SME Finance Forum, although dated, can be used as a proxy. Table 4 shows that there is a significant financing gap in Belize, both as a percentage of the supply of credit and as a percentage of GDP. In the latter case, it is the highest compared to The Bahamas, which is closest in size to Belize in terms of population, and relative to Barbados, Jamaica, and Trinidad and Tobago, the largest economies in the CARICOM group. Turning to women-owned firms, the financing gap compares favorably relative to other Caribbean countries (table 5); however, this result could mean that many women simply do not apply for a loan, either because they lack information on loan programs, or because they do not find alternatives or value propositions to address their needs or due to auto-exclusion by assuming their credit applications will be rejected. Indeed, there is a growing literature that points to the effect of conscious and unconscious gender biases in terms of credit approval.³⁵ This builds a case for a more detailed analysis, as the data needed to validate the previous statement is not currently available, and it is one of the challenges to address the MSME financing problematic.

The lack of data on the supply side makes it difficult to assess the participation of MSMEs on the financial system's portfolio. The adoption of a standardized MSME definition has not been widespread to different agencies involved in the access to finance for MSMEs ecosystem. The fact that banks and some credit unions classify their loans by size has meant that data on the MSME loan portfolio is not available. Anecdotal information based on interviews with FIs outside the DFC (see next section), the MSME portfolio is roughly 10% of the total portfolio.

Table 4. MSME finance gap in Belize versus selected Caribbean countries

Country	Total Pop.	Total # of registered MSMEs	Supply of Credit (US\$ mill.)	Formal Potential Demand (US\$ mill.)	Financing Gap (US\$ mill.)	Financing Gap as a % of Supply of Credit	Financing Gap as a % of GDP	Informal Potential Demand (US\$ mill.)
Belize	441,471	11,346 (2021)	137.1	600.1	463.0	338%	26%	434.5
Bahamas	412,623	6,258	2,283.0	2,343	60.5	3%	1%	831.8
Barbados	281,995	15,164	245.7	1,098	852.8	347%	19%	N/A
Jamaica	2.8 mill.	10,438	432.1	3,150	2,717.0	629%	19%	1,516.0
Trinidad & Tobago	1.5 mill.	19,186	1,522.0	6,045	4,522.0	297%	16%	2,779.0

Source: SME Finance Forum, MSME Finance Database (updated 2018). Data is rounded. Population Data Belize, see Social Security Board data (2022); Population data for other countries, see World Population Review 2023.

³⁵ See, for example, Montoya, Parrado, Solis and Undurraga (2020).

Table 5. Finance Gap for Female-owned Firms in Belize versus selected Caribbean Countries

Country	% of Women-Owned Businesses Credit Constrained ¹	% of Women-Owned Businesses Not Credit Constrained	Financing Gap (US\$mill.)	Financing Gap for Women-owned firms (US\$ mill.)	% Share of Financing Gap by Women-owned Firms
Belize	45%	55%	463.0	64.03	14%
Bahamas	34%	66%	60.5	16.1	26%
Barbados	14%	86%	852.8	138.2	16%
Jamaica	16%	84%	2,717.0	300.0	11%
Trinidad & Tobago	38%	62%	4,522.0	1,036.0	23%

Source: SME Finance Forum, MSME Finance Database (updated 2018).

^{1/} Includes Partially Credit Constrained Businesses. Fully Credit Constrained, means that it is difficult to obtain credit. This includes businesses that have been rejected for a loan or did not apply for one, either because of unfavorable loan terms or they assumed they would be rejected. Partially Credit Constrained businesses have been somewhat successful in getting a loan i.e. were approved from a smaller amount than requested. Non Credit Constrained businesses either have not applied for a loan because they have their own resources or they have received a loan. These classifications do not take into account the creditworthiness of the business. See World Bank-IFC SME Finance Forum, MSME Finance Gap Report – Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets, 2017 p. 18.



3.2. Gender and diversity considerations

Women-owned firms³⁶ in Belize face struggles, as it is the case in the region and at a global level. It is estimated that women account for 87% of the owners of microenterprises, but only 12% of small businesses. In other words, few women own small, medium larger companies, and most women-led firms earn less than BZ\$25,000 per year. These microbusinesses are often home-based and necessity-based, rather than opportunity-based, established to supplement family income, which limits their productive potential, and tend to be concentrated in the tertiary sector – wholesale and retail and services (hairdressing, jewelry-making, organic beauty products, food services, and others). A 2016 study of 65 women

³⁶ We are using the IDB definition, which combines both 51% ownership and management metrics.

entrepreneurs in Belize found that 31% of businesses were restaurants, 17% were boutiques and 37% were involved in other activities, such as gift shops, bakeries, or travel agencies.³⁷ This is also supported by the SEIA survey, which highlights that 66% percent of women entrepreneurs are engaged in service activities, versus 34% for men.³⁸ These are economically vulnerable activities, which were severely affected by covid-19. These findings are in line with the characterization given in the literature to women businesses.³⁹ These differences require distinct approaches to support for women entrepreneurs that recognize the different financing limitations and needs relative to those of men.

The significant indigenous population present in Belize adds another layer of complexity to MSME development. These groups, such as the Mayans in Toledo, typically engage in subsistence farming or they own informal micro-businesses, in the case of Mayan women, to supplement farm income. These informal family businesses are focused on activities such as basket weaving, and other crafts aimed at tourists or catering.⁴⁰ These businesses are often seasonal and therefore the most vulnerable with respect to revenues and cash flow. In general, in the case of indigenous women for example, women play a secondary role to men, although they are important income-earners as necessity-based entrepreneurs.

³⁷ Aldana and (2016).

³⁸ UNDP, SEIA Results, Figure 60, p. 18.

³⁹ Research shows that there are significant differences between men and women entrepreneurs in terms of: (i) motivation: Women tend to be motivated to start a business for autonomy and flexibility, rather than the need to pursue a market opportunity; (ii) support: Women are more likely to “go it alone”, as sole proprietors, with fewer networks and less support from family and friends; (iii) training: women are likely to be more educated than men when starting their business, and they are more likely to want training; (iv) confidence: Women are less confident than men as business owners; (v) experience: Women are less likely to have professional experience when starting their business; and (vi) business size: Women tend to operate smaller businesses than men, which are less likely to scale.

⁴⁰ For a discussion of socio-economic issues facing indigenous people in Belize, see IDB (BL-L1041) - Sustainable and Inclusive Belize: Sociocultural Analysis and Indigenous Peoples Plan (draft), June 2022.



An approach to study the restrictions to access to finance in Belize

The approach to study the factors affecting both supply of and demand for credit for MSMEs involved desk research and interviews. As a first step, all the recent strategy documents dealing with MSME development were reviewed. These documents not only effectively capture the situation on the ground with MSMEs in Belize, but also provide a clear sense of the government's current and prospective policies to support these businesses. Other relevant MSME project documents, economic reports, as well as additional sources suggested by different stakeholders were also reviewed.

To gauge the situation “on the ground” in the access to finance arena, three surveys were developed for business support organizations, financial institutions and MSMEs. Because of the generally low response rate in the Caribbean for surveys, these documents were used as a guide for the interviews, and subsequently sent out to the individuals interviewed afterwards. Interviews were held with groups of individuals from a wide range of relevant organizations:

- ♦ **Government Ministries** – Economic Development Council in the Prime Minister's Office, Ministry of Finance, Ministry of Economic Development, Ministry of Investment, and Ministry of Agriculture, Belize Tourism Board, and the Central Bank of Belize.

- ◆ **Financial Institutions** – Interviews were held with all four commercial banks in Belize as well as the Banker’s Association. In addition, a focus group was held with 7 of the 8 credit unions and the Credit Union League. Finally, an interview was held with the Development Finance Corporation (DFC).
- ◆ **MSME Business Associations and Business Support Organizations** – Belize Chamber of Commerce; Belize Tourism Industry Association; and BELTRAIDE.
- ◆ **MSMEs** – Focus groups of entrepreneurs were also held.⁴¹ Three (3) groups of 12 entrepreneurs each were targeted. Although the actual number of participants was lower than the target (there were 12 business that attended the focus groups in total), information shared in those meetings were extremely useful. At the conclusion of each focus group session, the MSME questionnaires were dispatched to the entire sample population. Eleven (11) survey responses were received. While some of the surveys are not complete, the responses are consistent with the information shared in the focus groups. Of these, six (6) of the business owners also attended the focus groups so their responses could be validated. Of note, ten (10) of the 11 survey responses received were from women-owned firms. Notwithstanding the low response and participation size, the nature of the MSME variation and industry distribution of the active participants was considered a fair representation of the MSME sector. A profile summary of invited entrepreneurial businesses can be seen in table 6.

Table 6. Profile of the eleven businesses in the survey

Profiles	
Age/Gender of Owner	21-54 years old/ 10 females; 1 male
Location of Business	Stann Creek (2); Punta Gorda (2); Cayo; Corozal; San Ignacio; Mango Creek; Caye Caulker; Orange Walk (2)
Industry	Manufacturing (5); Agro-business; Tourism; Arts/Culture; Food Service; Upholstery; Services (BPO)
Ownership Structure	Sole Proprietorship (7); LLC. (2); Partnership (2)
MSME Classification	Micro (7); Small (3); Medium (1)
Registration	Yes (6); Yes, except IP (1); Yes, but no Tax Registration (1); In Progress (1); No (2)
Established before COVID-19	Yes (6); No (5)
Revenues	6 responses. Range- \$10,000 to \$250,000; 1 response - \$1.5 mil in 2021.
Impact of COVID-19	Fall of 65% or more in revenues (4); closure (3); just starting (1); 50% reduction initially, then 200% increase in revenues (1); 2 businesses did not respond.

⁴¹ The sample population consisted of 60 entrepreneurs selected based on their participation in the MSME roadshow held in 2022. An effort was made to ensure a diverse grouping for each focus group based on MSME classification, majority gender ownership, and geographic location.



Demand for and supply of financing: Key findings

5.1. The demand side

The covid-19 pandemic had a significant impact on the operations of the respondent MSMEs. All the business owners in the focus groups were affected significantly by covid-19, reporting revenue losses of between 65% and 90%. Several businesses simply closed their doors temporarily, laying off most staff. One business owner described the 2020-22 as a “roller coaster”. Some, like a company in light manufacturing, remained in business with a skeleton staff. Other businesses managed to pivot. One restaurant, after closing for 4 months, pivoted to meal delivery, and because of slow sales, pivoted again after 2 months to producing organic spices, working with local farmers in Toledo. Another company providing transportation in the tourist sector strategized and reached out to form partnerships with international brands in the transportation space, and as a result, doubled revenues in 2022. One of the two small companies in the focus groups, which provides professional services to international clients, thrived during the pandemic. After an initial drastic 75% fall in business, with mass cancellations by clients, within 3 months things had turned around with revenues doubling as customers overseas in the U.S. wanted outsourcing support to reduce costs.

Government support and grants programs are unknown or considered insufficient. Public Sector grant assistance to MSMEs under the MSME Support Program (Box 1), to soften the impact of COVID-19, while welcome for those who could access financing, was not seen as sufficient for the small businesses in the survey, who chose therefore not to apply. Even for the microenterprises who did receive support, at best, the grant provided partial funding for a piece of equipment or contributed to a rent payment, or partially cover import duties. About a quarter of the MSMEs interviewed have been able to secure grants within the last year through BELTRAIDE and pitch competitions during the MSME Roadshow. Grants do play an important role in the early stages of the business development cycle, and women businessowners seem to be more active in seeking grants from different sources. Aside from the grant assistance from the Government, entrepreneurs have been actively seeking out the few grants available from competitions and NGOs. Businesses who can, are self-funding their recovery, and very few are considering a bank's loan. The Emergency Business Support Program (EBSP) channelled through the commercial banks and the DFC was not really utilized. Only one company reported securing a loan sponsored by the program.

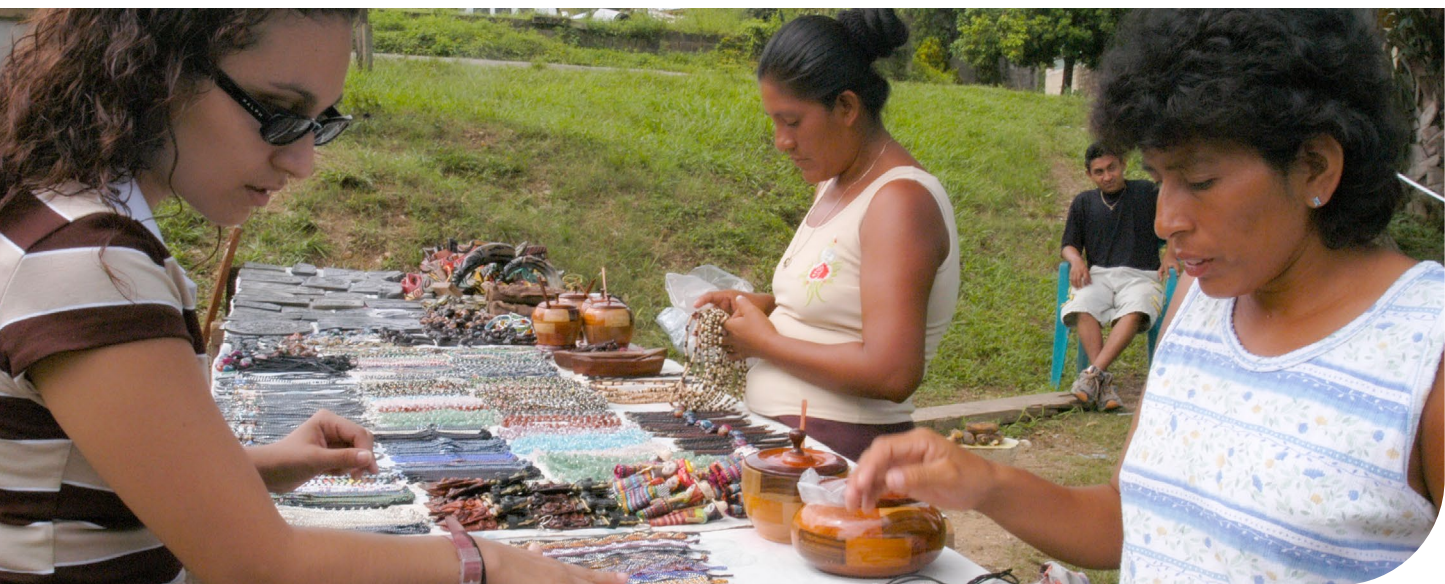
Financial literacy, a predictor of demand for financing, is limited. There are gaps in financial literacy even in cases where entrepreneurs have been in business for over 3 years. In the surveys conducted, only 4 of the respondents rated their financial knowledge as "very good". The government strategies call for financial service providers – banks, credit unions to design and carry out sector-specific financial literacy programs. Partly because of covid-19, not much has been developed on a broad basis so far. There are small, isolated programs being conducted by a few FIs and the CBB, but efforts should be widespread and incorporated at all levels of education.

There was almost unanimity in the concern regarding the loan terms and application processes of domestic FIs. Six of the companies in the focus groups have either applied for a loan recently or have an existing loan. These loans, with one exception (BZ\$15,000) are very small – BZ\$3,000 to BZ\$5,000. The application process is seen as onerous and restrictive by most of the businesses. They cite long delays between application and the bank's decision. One company applied for a BZ\$15,000 loan from one of the commercial banks in early 2022, and it took several months to receive a rejection. The bank said that the company's products were not widely distributed, so cash flow was too low to qualify. Ironically, the loan was being solicited to expand production. Another company is still in the loan application process 5 months later, as the bank now requires original documentation from the various government agencies – Companies Registry, Social Security, Belize Tax Services - even though the original application is complete. Some companies trying to access financing in the first 3 years of business have been declined, even for as small a loan as BZ\$3,000. Of the six (6) businesses from the focus groups that answered the survey, three of them have not applied for a loan in the last 3 years, because of what they see as a complicated application process, high interest rates and collateral requirements, and in one case, a lack of trust in financial institutions. The three other businesses applied for a loan, one was approved, and the other two were rejected because of weak cash flows. Not surprisingly, the small, rather than the microbusinesses, have been more successful in obtaining a loan.

Beyond interest rates, administrative costs of getting a loan are considered a deal breaker by smaller companies, leading to a preference for financing businesses with higher-cost personal loans. Many respondents indicated that the interest rates offered by the FI's were too high. This even included the Development Finance Corporation (DFC). The interest rates offered by banks to MSME's hovered between 8 to 9% at survey time, whereas MSME's considered rates between 5% to 6% as affordable. Beyond interest rates, some MSMEs described that the administrative costs, inclusive of banks fees, are a deterrent for pursuing a loan, as this would mean passing on the extra expense to their customers. One of the factors explaining the high transactions costs could be the predominance of manual methods of assessing loan applications, as well as loan processing and

monitoring. The criteria for these loans are more readily understood, although the cost of these credit lines is higher than that of business loans in general. The interest rate differential between a business loan and personal one is approximately a 3- 4% (300 - 400 Basis Point) spread, in coherence with traditional productive versus consumption-based financing. Consequently, many MSMEs tend to address their financing needs via personal loans, own resources, or other sources. Interestingly, respondents indicated that financing packages could be made more attractive if tailored technical assistance were to be made a part of them. This is particularly important for women led or owned MSMEs since the literature consistently found that women entrepreneurs demand non-financial services as part of their broad financing needs and preferences.

The respondents conveyed that most FIs appear to possess a desensitized assessment of MSME risk. MSMEs consider that banks are doing little to support MSMEs and their distinctive needs, although banks were present at the MSME Roadshow. They are viewed as being risk averse. The perception is that service businesses for example are not seen by the banks as viable, as they are used to evaluating applications from companies selling products. DFC is also viewed in this light, as it is considered more like a commercial bank. One company cites being offered less than half of the loan amount requested, based on revenues, despite having all the necessary paperwork. Another respondent applied for an agricultural loan but was offered a final rate of 8%, considered high for a development bank.



5.2. The supply side

Several FIs raised the point that **microbusinesses lack basic information.** Information gaps can be found regarding support and financing programs, the services provided by banks and credit unions and how to qualify, how to run a business and even information on the different types of business structures, and how they are viewed on a loan application.⁴² Many MSMEs are requesting a loan without a clear sense of why the loan is needed and how the funds will be used.⁴³ In an attempt to fill this gap, one bank planned to launch financial education across the country, including in schools, to encourage MSMEs to enter the formal sector and deposit their funds in a financial institution. This will provide information on cash flows, that can be used for a loan appraisal. The one-stop-shop approach of the MSME Roadshow proved helpful as a knowledge-sharing initiative,

⁴² The Companies Registry points out that many businesses register as a sole proprietor rather than a limited liability company because of lower fees.

⁴³ Interview, January 19, 2023

and it provided an opportunity for the banks to meet prospective clients in an informal setting, and to gather raw data to be used in their marketing efforts. This lack of knowledge also affects the uptake of financial products and services.⁴⁴

There is also an information gap stemming from FIs. This is due in part to the data classification problem, and to the fact that it is difficult to determine when a client is over-leveraged. Loan applicants are hesitant to discuss their other debt, as it could result in a rejection. All the institutions welcome the prospect of the implementation of a credit bureau, and they acknowledge that while it will improve the credit review process, it might not necessarily result in a significant increase in MSME lending as each client's risk profile still represents the main factor.

Among FIs, there is a vision that MSMEs are not ready for financing. FIs view that the readiness of the entities to assume debt in a sustainable manner is not there. This readiness encompasses, among others: 1) an understanding of the requirement for proper financial records, 2) the maintenance of those records, 3) submission of those records to FI (something that many MSMEs are not willing to do, mostly due to cultural biases, especially among indigenous populations), 4) the proper formalization of their respective business, and 5) the preparation of a sound and robust business model as financing case. Consequently, banks have found that MSME's need what they refer to as significant amounts of "handholding" time. This phenomenon affects applicants who are not as well known to an FI. Some banks are willing to provide support in the issues above mentioned, but many consider that this is responsibility of the government.

All the banks raised the question of risk as a major reason for their current levels of business lending. Weak cash flows, non-existent or low collateral, lack of a track record in the market, lack of new and innovative products filling a clear market need, and lack of scalability, were all cited as reasons for considering most microenterprise clients high risk and for rejecting applications. When lending does take place, interest rates can be as low as 7% for top tier clients, but the average rate for bank clients is 9%. Some credit unions are charging rates as high as 12% or 15%. There is a significant difference between these rates and the 5-6% rate that MSMEs in the survey are willing to pay. In essence, the ability to repay the loan is the driving factor in the perception of risk. Notwithstanding, information on the banks' credit risk methodology was not available, and several of the credit unions have no formal credit analysis tool to assess risk. Climate risk is not included in the risk analysis process for almost any of the financial institutions. This risk gap is particularly surprising given Belize's vulnerability to climate change, the government's focus on climate resilience and adaptation and the international financing for climate risk that is available.

Several banks also indicated that they would be willing to significantly expand lending, including to MSMEs in riskier sectors, but they are limited by CBB rules. They stated that CBB's IFRS-9 provisioning rules apply the same requirements regardless of the size of the loan.⁴⁵ With the special forbearance measures that the CBB instituted during covid-19 to support MSMEs now expired, it remains to be seen what the impact will be on the banks' MSME lending. The CBB's provisioning rules cannot be made less stringent, as they are part of a wider international framework of prudential supervision. The CBB is of the view that the banks need to adopt the "forward-looking approach to risk" which is the basis of IFRS, in which loan risk (expected loan loss) is identified at the outset and mitigated beforehand.

⁴⁴ The DFC for instance, partially attributes the slow uptake on the Empowered Business Loan and other signature products to a lack of knowledge about these products and their benefits.

⁴⁵ The credit unions are not yet required to implement IFRS-9 measures.

Very few of the financial institutions interviewed have specific loan products tailored to various MSME segments, other than secured and unsecured loans. Although the focus is on marketing existing products, there is no evidence that banks or credit unions have either the staff or the expertise to develop tailor-made products for different MSME segments. Furthermore, given the way in which MSME loans are classified and the MSME loan portfolio segmented, the data is not readily available to support product development. Also, there are no loan products specifically designed to address climate change, other than lending for irrigation systems or energy efficiency improvements. Finally, none of the institutions have developed specific products and services for women. This is partly because portfolios are not segmented by gender. As a result, there is no data to determine women's financing needs and to determine possible business opportunities. This lack of data is one of the barriers to new product development across the board. One bank pointed out that it did not have the staff to launch a special lending program for women-owned businesses. There also appears to be a "blind spot" in terms of understanding the different limitations and needs that women face relative to men, particularly in term of the appraisal process.

Several institutions interviewed see the ecosystem supporting MSMEs as fragmented, which contributes to the lack of information problem. From the perspective of the banks, proper strategies to improve financial knowledge and financial attitudes of MSMEs would help to "de-risk" these businesses. However, current training programs related to starting and running a business are leaving vast numbers of microentrepreneurs behind - start-ups in particular - especially in the rural areas. Part of the problem is lack of reach, given the importance of engaging in training at the local level, which is important for take-up of training programs by MSMEs. BELTRAIDE only has a presence in Belize City and Belmopan and its Start-up Essentials workshop is only offered 2 or 3 times a year. While some courses are offered online, the effectiveness of this option is not clear. Prior to covid-19, BELTRAIDE conducted community outreach, running training and business support clinics for microentrepreneurs, and the intention is to re-start these activities. This has resulted in a mismatch between the training being received by MSMEs and what the banks need to properly assess a client. In other words, the focus of trainings available is on developing a business plan, when the banks want to see a bankable business model and a solid business track record. The view is that it is difficult to fund 100% of a business based only on a business plan. The partnership between one bank and BELTRAIDE to develop a train-the-trainers program, is an effort that could be escalated. The consensus from the interviews however is that MSME training and coaching to get businesses prepared for financing should not be the responsibility of the financial institutions and that the government needs to scale up efforts.



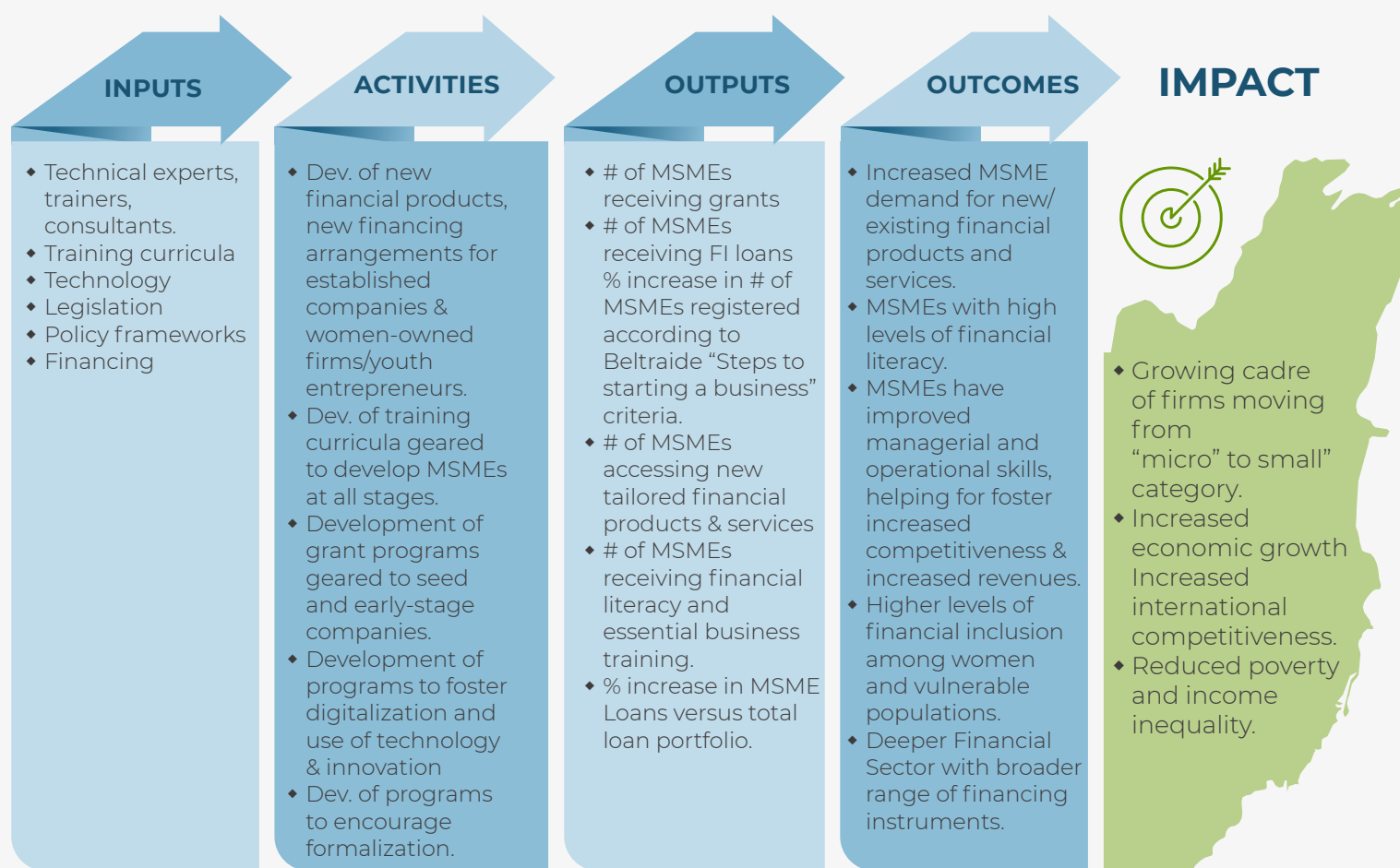
6.

Recommendations

The recommendations provided are based on the findings of the surveys and interviews, framed under the Theory of Change (TOC) construct. The TOC approach was chosen to demonstrate alignment with the objectives of existing governmental policies and strategies.⁴⁶ An indicative TOC is depicted in figure 5 and box 3, and a summary of the recommendations based on TOC is presented in table 7.

⁴⁶ A Theory of Change (TOC) framework emphasizes first, stakeholder collaboration and engagement to achieve buy-in and consensus, which improves outcomes. Second, a TOC builds a hypothesis about how change will occur and under what circumstances, relying on Key Performance Indicators (KPIs) to measure success, both in terms of Outputs and Outcomes (results), to indicate when the change desired has been achieved. This makes results more credible and provides a clear evaluation framework. Third, a TOC explicitly considers the key assumptions underlying success and makes a clear statement on the required enabling environment, key intervenors, and other enablers to achieve success. Finally, a TOC can increase accountability for results. At the heart of operationalizing a TOC is monitoring and evaluation information that is captured systematically, according to a predetermined framework. This information serves two purposes: accountability and learning.

Figure 5. Access to Finance Theory of Change – Belize



Box 3: Theory of Change - Belize

TOC End-Goal: Increased MSME demand for and access to financial products and services, based on higher levels of financial inclusion and literacy, leading ultimately to a growing cadre of firms scaling from “micro” to “small” and beyond.

TOC Statement: If relevant policy frameworks are developed, and technical, business, and financial education, as well as incentives provided to key stakeholders in the access to finance eco-system, then there will be increased demand for and access to finance for MSMEs.

Assumption: Without the active involvement of the government in collaboration with key stakeholders, including the financial sector in Belize, MSME lending will not increase, new tailor-made financial products and services for MSME’s will not be developed and MSMEs will neither have equitable, as opposed to equal, access to these products and services, nor will they be able to effectively utilize them.⁴⁷

⁴⁷ Equality means that everyone is given the identical opportunity or access, regardless of the individual’s circumstances. Equity considers the special circumstances of disadvantaged or vulnerable groups for example and provides appropriate opportunities or access to ensure equal outcomes.

Table 7. Summary of recommendations based on the Theory of Change (TOC)

Relationship between recommendations and TOC outcomes recommendations	TOC Outcomes
<ul style="list-style-type: none"> ◆ Mainstream a single MSME definition. ◆ Increase public-private sector collaboration. ◆ Encourage the development of tailored financial products . ◆ Prioritize addressing the issue of traditional loan collateral challenges. ◆ Facilitate the access to incentives to formalize. 	<ol style="list-style-type: none"> 1. Increased MSME demand for new and existing financial products and services. 2. Deeper financial sector with a broader range of financing instruments.
<ul style="list-style-type: none"> ◆ Enhance financial literacy. 	<ol style="list-style-type: none"> 3. Increased MSMEs access and use of products and services suitable for their needs.
<p>Adopt a gender lens approach Develop products and customer service approaches that incorporate gender dynamics and considerations.</p>	<ol style="list-style-type: none"> 4. Higher levels of financial inclusion among microbusinesses, especially women and vulnerable populations.
<p>Improving MSMEs capacities to access and better use financial products and services and their financial trust.</p>	<ol style="list-style-type: none"> 5. MSMEs with improved financial trust, managerial, and operational skills, helping to foster increased competitiveness and increased revenues.

Efforts to mainstream a national a MSME definition should be a priority.⁴⁸ A standard definition of MSMEs has not yet been incorporated in any of the institutions currently collecting data on the sector. It will require legal changes, and it will mean a broad-based public awareness campaign, as well as training to effectively incorporate the new classification into existing data collection systems. A new common definition will facilitate data-sharing on MSMEs between Social Security, the Belize Tax Service, the Customs and Excise Department and other state agencies with whom they must register to do business. Steps have already been taken for data-sharing between some of these institutions. For example, the SIB has recently signed data-sharing MOUs with the Belize Tax Service and Social Security. Also, it will enable the CBB, SIB and others to obtain a more granular picture of lending to MSMEs from FIs and allow for a more accurate estimate of the size of the sector, which will be useful from a policy and financial inclusion perspective. It will also provide the FIs with accurate data on MSME segments to design tailored products.

Increase public-private sector collaboration to overcome barriers to access to finance.⁴⁹ Public-private sector collaboration is a key factor for improving access to finance. Collaboration and ongoing lines of communication should be strengthened between both public and private sector stakeholders – government ministries, DFC, FIs through the Bankers’ Association, the CBB, business support organizations (BELTRAIDE, BEST, etc.), and other relevant actors from emerging innovative sectors such as digital payments, through institutionalized coordination mechanisms such as the Economic Development Council. Relevant information on financing programs and strategic projects benefiting MSMEs should be shared systematically, including those being funded by multilateral institutions. This will counteract the “silo effect”, a situation not unique to Belize. It should also include coordination on marketing and outreach efforts where possible, which means consistently “getting the word out” to MSMEs about financing programs, including the national development bank. Considering its relevance in the country, the MSME Roadshow should be

48 BIBCAP Alignment: Pillar 1.7 – Expansion of data collection on MSMEs, Pillars 1.8,1,3,5,,7 and .9 - MSME Standards Development and Utilization.

49 BIBCAP Alignment: Pillar 2.1.1 and 2.1.4 - Improving Ease of Doing Business for MSMEs.

mainstreamed as a regular event, with subsequent follow-up by BELTRAIDE with the MSMEs at the community level afterward, to reinforce the institutionalized nature of this type of support from the government. A fluid dialogue with the banks, credit unions and other financial service providers is also recommended to encourage exchanging information needed to develop new tailored products for the different business segments, and to identify actions that could improve the enabling environment for MSME financing, including public sector incentives to increase FI lending.



Develop tailored financial products for different MSME subsegments. Continuously identify regulatory and credit information barriers faced by banks or other FIs that prevent them to develop or tailored financial products for the segment, particularly for those viable companies who have increased revenues as a result of MSME public programs of assistance. Habilitate flows of information and consider the value of setting proportional requirements in line with the MSME nature and characteristics. Continue promoting a credit risk culture, going forward with the effective implementation of the credit reporting system covering MSMEs. Furthermore, implement public initiatives that create incentives to reach the segment, such as guarantee schemes, and insurance systems to allocate risks efficiently. Finally, it is important to continue diversifying sources of funding with capital market or innovative propositions. As digital transformation brings opportunities for the appearance of innovative financial services, prioritize implementing effectively enabling conditions for fintech ecosystem development, including effective digital identity and data protection. Continue with the efforts to modernize payment systems in the country and encourage interoperability and inclusiveness from the supply and demand. Transactional information flows in payment systems are a powerful tool for financial inclusion and encourage the flow of credit to MSMEs. Monitor new business models and create collaboration spaces to support fintech initiatives, for example through Innovation Hubs.

Develop tailored financial products within the MSME segment in strategic sectors.⁵⁰ Encourage banks to develop stage-specific and sector-based loan products. The government's aim in the MTDS to update policies and regulations in key traditional sectors such as sugar and bananas could also present opportunities for further engagement by banks and credit unions in these sectors at

⁵⁰ Pillar 3.6 - Increase in MSME access to affordable bank loans, Pillars 3.7 and 3.8 – Financial market development with special emphasis on alternate financing methods (equity/grants) and Instruments for MSMEs.

the local level. Also, there are untapped opportunities for the FIs in climate finance, particularly in agriculture and tourism, given the need to support climate adaptation and climate resilience in MSMEs and the government's goal to build a more resilient Belize with support from the Green Climate Fund (GCF). Giving the demonstrative effect of DFC financing on the private financial sector, explore how it can contribute to the development of risk-mitigating guarantee schemes in strategic sectors. Moreover, there is scope for the FIs, particularly commercial banks, to finance the development of new agricultural niche markets for Belize, such as turmeric,⁵¹ coconut, and other potential products, in the entire value chain. Banks could also consider implementing more flexible loan programs for MSMEs, by developing a microloan product (below BZ\$5,000) with simpler documentation requirements, to bring more MSMEs into the formal financial sector. New product development will require training for bank staff including loan officers to increase capacity to identify financing opportunities, structure new products for the market and to accurately price risk, reducing over-reliance on traditional forms of collateral (see below).

Prioritize addressing the issue of loan collateral.⁵² Tackling collateral challenges require a multi-pronged approach encompassing policy reforms, support system and innovative financial products. Belize's efforts to establish a collateral registry for movable assets (including intellectual property) and to develop a secured transactions framework could be fast-tracked and broadening the scope of acceptable options to collateralize loans. Equal attention should be given to awareness-raising and public education about the collateral registry and its operations, as well as its relevance for access to finance. Training will also be required for key stakeholders in the financial sector – the banks, accountants, etc. – in valuing movable assets. References to successful international experiences in this regard will be useful.⁵³ The development of adequate insolvency and bankruptcy regulations and institutional frameworks to ensure enforcement of financial contracts are crucial complements to these efforts. Beyond these initiatives, there are other avenues for the government to address collateral limitations, such as credit guarantee schemes supported by the public sector to reduce the risk for lenders, thereby also lowering collateral requirements. Importantly, financial innovations and technological changes are opening new avenues to deal with traditional collateral limitations, such as alternative credit risk assessments and the acceptance of alternative collateral. Factoring and invoice discounting as well as cash-flow lending represent innovative financial products that can be explored and adapted to the local needs.

Promote financial literacy.⁵⁴ The following steps could be explored in line with the best practices presented in recent literature: (i) conducting a Landscape Assessment to determine financial literacy needs of different population groups and the gaps in knowledge and existing programs in process; (ii) build a pragmatic Financial Literacy Framework – including partnerships with

⁵¹ One of the two small businesses in the focus groups produces in Belize the world's first turmeric paste. The company is currently exporting to 7 countries, including the U.S., Canada, Switzerland, and the U.K., working with 350 small scale growers. This could be an important niche area for Belize, particularly given the high quality of Belizean turmeric and the export diversification potential. However, funding for this woman-owned company has been a challenge.

⁵² BIBCAP Alignment: Pillars 1.8.1, 3.5, 7 and .9 - MSME standards development and utilization, Pillar 3.9 – elimination of demand-side issues affecting MSME access to finance.

⁵³ The case of Jamaica is instructive. In 2013, the Government passed the Security Interests in Personal Property Act (SIPPA), which facilitated the development of a collateral registry in 2014. However, by 2018, only 1% of the listings on the registry were movable assets, including intellectual property. This low level of registration was partly due to a general lack of knowledge about the SIPPA and the movable collateral registry. As a result, the government launched a public relations and training effort to promote use of the registry. Specifically with respect to Intellectual Property (IP), the lack of IP listings highlighted the fact that there were several key gaps in the IP ecosystem in Jamaica, which were limiting factors for IP commercialization and collateralization. As a result, the Government of Jamaica (GOJ), with IDB (Compete Caribbean Partnership) funding, developed a project (JA-T1161) to promote IP collateralization and commercialization, implemented by the Jamaica Intellectual Property Office (JIPO), which included: An Action Plan and data collection efforts to monetize and collateralize IP assets in Jamaica; training for IP holders (MSMEs), and business support organizations; training in valuation and valuation techniques for bankers, lawyers, accounts, auditors and insurance risk managers.

⁵⁴ BIBCAP Alignment: Pillar 1.9 – Promotion of MSMEs in the tourism sector, Pillar 3.4 – Promotion of MSME formalization, sound management and governance practices, Pillars 7.3.2, 3.4, 5, and .7 – Establishment of a National Business Incubation Centre to promote the development of early-stage entrepreneurial initiatives, Pillars 7.10.2, 7.13.1 and 7.15.4 – Support to the Development of MSME's within the green, orange and key select sectors, such as agro-processing.

financial institutions to embed financial education into their existing programs e.g. existing agricultural extension training services for farmers; online financial education tools to be offered to the public, and a monitoring and evaluation system. Throughout the process, it is important to use the right learning tools and channels and leverage teachable moments to address the specific needs of women and vulnerable populations. Once the Assessment has been completed, a pilot program could be designed and implemented in one district, working with a financial institution, in collaboration with the association of banks and credit unions. The pilot could subsequently be scaled up, based on lessons and outcomes.



Adopt a gender lens approach.⁵⁵ None of the FIs have special programs for women, largely because they do not collect and report adequately sex-disaggregated data that is required to understand existing portfolio and demand dynamics. Segmentation and improved data collection methods could improve the situation. In this regard, it is crucial to adopt best practices in terms of defining what constitutes a woman-owned or led company, and this should be incorporated to the new MSME definition. DFC has already adopted these best practices. BELTRAIDE, given their existing programs, can also play an important role in shifting public perspectives on financing women-entrepreneurs, by highlighting the fact that it is good business to support their companies. The government ought to communicate that women face distinct and specific barriers in terms of access to finance, networks, training as compared to their male counterparts, which puts them at a disadvantage when trying to increase revenues, access to finance and grow the business. The FIs – management as well as loan officers – will need training on the constraints facing women business owners and the market potential of addressing their financing needs. Finally, an effort should be made to meet women entrepreneurs’ demand in terms of non-financial services to complement their business development needs.

⁵⁵ BIBCAP Alignment: Pillars 1.6.1 and 1.6.2- Elimination of the gender gap in MSME ownership.



Improve MSME’s capacities to access and better use financial products and services and their financial trust.⁵⁶ A comprehensive approach to enhance MSME financial understanding and awareness is needed to promote MSMEs’ access to finance. According to the information gathered in the study, Belize can benefit from a comprehensive strategy for MSME capacity building, including literacy programs, mentorships, business development support, and the promotion of information needed to operate a business and access to support programs available in the ecosystem. The strategy requires a renewed focus on effectiveness and building trust of MSMEs in the financial sector to address demand side-side constraints and improve outcomes. To achieve that, the international experience points to the benefits of developing digital initiatives such as the portal *Web Educa* developed by the Chilean financial regulator – the Financial Markets Commission- using Behavioral Economics to improve outcomes, including through, for example, “teachable moments,” nudges -such as reminders- and default options, or educational modules in digital financial services, and improving communication policies and the use of television, radio and other means to reach the broader population to create awareness or change cultural attitudes and behaviors. Furthermore, there is a need to ensure the effective involvement of financial and other service providers. The positive impact and scope of these interventions depend on the availability of enabling conditions and requirements, such as access to the internet and digital literacy which have also to be considered.

⁵⁶ BIBCAP Alignment: Pillar 3.4 – Promotion of MSME formalization, sound management and governance practices, Pillar 3.9 – Elimination of demand-side issues affecting MSME access to finance.

The training component can operate at three levels in Belize. The first level is a basic course on starting and running a business, which is mainstreamed across the country and offered on a sustained basis at the local level to start-ups, early-stage companies, and special target groups such as women, youth, and indigenous populations. This should be tied to company registration and should also provide information on how to access fiscal and other government incentives as well as financing. The second level is geared to more established microenterprises and small businesses involving more tailored courses in marketing, accounting, technology. Finally, training at the third level should focus on opportunity-based firms, providing the coaching, guidance, and material to support innovation and scaling. This training effort should be complemented by sector specific training of entrepreneurs. In the agricultural sector, for example the government has a good model working with cooperatives, providing farmers with business and agricultural extension training, and the BTB is developing plans to develop a training institute for MSMEs in the sector. A dedicated MSME training institution could be established, with both online and in-person instruction. The goal should be to provide a suite of training services appropriate to MSMEs at each stage of their development. This institution should coordinate efforts with the government ministries and others providing sector-specific training, so there is no duplication of efforts. The SBDC could be re-organized and expanded to take on this role.

Facilitate the access to incentives to formalize.⁵⁷ The new fiscal incentives act is well intended to promote the formalization of MSMEs. However, only MSMEs in certain key sectors (tourism, agro-processing, fisheries and aquaculture, and light manufacturing) can apply. Benefits could include MSMEs in other sectors, and the application process could be eased in the documentation required, to allow smaller firms to apply, and the selection criteria should be made transparent. Finally, the incentives granted should be strictly temporary to avoid creating incentives to remain small, as has been the case with similar special regimes in other countries in the region.

⁵⁷ BIBCAP Alignment: Pillars 1.8.1, 3, 5, 7 and .9 - MSME Standards Development and Utilization, Pillar 3.4 – Promotion of MSME formalization, sound management and governance practices.

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