



A Blueprint for Capital Market Development in Belize

Final Report

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Acronyms

- AML/CFT Anti-Money Laundering/Crime-Fighting Terrorism
- APSSS Automated Payment and Securities Settlement System
- BAA Belize Airports Authority
- BAHA Belize Agriculture and Health Authority
- BCCI Belize Chamber of Commerce and Industry
- BEL Belize Electricity Limited
- BELTRAIDE Belize Trade and Investment Development Service
- BSSB Belize Social Security Board
- BTB Belize Tourism Board
- BTL Belize Telemedia Limited
- CARICOM Caribbean Community
- CBB Central Bank of Belize
- CCJ Caribbean Court of Justice
- CCPs Central Counterparties
- CD Certificate of Deposit
- CDB Caribbean Development Bank
- CDF Caribbean Development Fund
- COFAP Council for Finance and Planning
- CPF Country Partnership Framework
- CSD Central Securities Depository
- DBFIA Domestic Bank and Financial Institutions Act
- DFC Development Finance Corporation

- DVP	Delivery Versus Payment
- ECLA	Economic Commission for Latin America
- FI	Financial Institution
- FIU	Financial Intelligence Unit
- FMI	Financial Markets Infrastructure
- GDP	Gross Domestic Product
- GOB	Government of Belize
- GSDS	Growth and Sustainable Development Strategy
- IBA	International Banking Act
- IDB	Inter-American Development Bank
- IFC	International Finance Corporation
- IFSC	International Financial Services Commission
- IMF	International Monetary Fund
- IMMARBE	International Merchant Marine Registry of Belize
- LAC	Latin America and Caribbean
- MIF	Multilateral Investment Fund
- NBB	National Bank of Belize
- NCRS	National Credit Report System
- NGO	Non-Governmental Organization
- NPL	Non-performing Loan
- NPS	National Payments System
- PSAR	Private Sector Assessment Report
- PUC	Public Utilities Company

- SBDC Small Business Development Center
- SIB Statistical Institute of Belize
- SME Small and Medium Enterprise
- SPS Standard Procurement System
- SSFs Securities Settlement Facilities
- WBG World Bank Group

Blueprint for the Development of Capital Markets in Belize

Summary and Conclusions

This Consultancy was done in coordination with the Inter-American Development Bank (IDB) and the Government of Belize, following an initiative of the Belize Chamber of Commerce and Industry (BCCI), to support the development of the capital market in the country, as an input for private market development. In the preparation of the report, discussions were held with officials from private and public sector institutions, including the Central Bank of Belize (CBB). Officers from the CBB revised and made comments to a previous draft of the report.

The focus of the consultancy is to prepare a “Blueprint for the Development of Capital Markets in Belize”, analyzing the current status of the market, the challenges it faces, the preconditions that need to exist for its healthy development, and proposing policy actions or measures to facilitate its development. The study utilizes primary and secondary information, as well as, interviews with representatives of the main entities that participate in the Belizean financial system (public and private sector representatives).

The report is organized in the following five sections:

- I. Benefits of a Well-Functioning Local Capital Market and Preconditions for its Development
- II. An Overview of Belize’s Economy and Financial System
- III. Current Development of the Local Capital Markets
- IV. Assessment of the Market, Institutional and Infrastructure Gaps for Capital Market Development, and
- V. Guidelines to Pave the Way for Developing a Capital Market in Belize.

The study analyses the functioning of the securities market in Belize, including government and enterprise financing, to determine demand and supply issues that could affect the development of the country’s capital market. The study also evaluates the variables that are linked to the successful development of a capital market in Belize, including those limiting the issuance of capital market instruments. It reviews macroeconomic policy, studies the existing legal and regulatory setting in the market and assesses the strengths and weaknesses availability of the financial and institutional infrastructure. It identifies gaps and shortcomings that could constrain capital market development and concludes with proposals for the implementation of various policies and actions to overcome them.

Benefits and Preconditions for the Development of a Well-Functioning Capital Market.

As is analyzed in more detail in Section I, a well-functioning local capital market offers several benefits to borrowers and investors, including governments. Some of these benefits include: allowing governments to finance their deficits without having to resort to financial repression or foreign borrowing; supporting the conduct of monetary policy by providing money and bond market instruments; improving the availability of long term financing; improving access to local currency financing to the government and firms; improving the

efficiency of capital allocation in the economy by deepening the financial system; increasing interest of foreign investors in the economy which can lower cost of funding; and enhancing financial stability, among other potential advantages that are analyzed in more detail in the body of the report.

Empirical evidence from international experiences indicate that capital markets need a critical mass of securities, investors, and funds for their efficient functioning, and that the size of the economy appears to be more critical for the development of a private sector bond market than for the development of a government bond market. Therefore, a private sector bond market may be more difficult to develop in a small economy. This is a major issue for Belize which is one of the smallest economies in the world.

There are various preconditions for the development of a well-functioning local capital market: (i) macroeconomic stability and sound macroeconomic policies; (ii) a proper regulatory and legal framework, including a basic market infrastructure; (iii) adequate taxation policies, and (iv) foreign exchange regulations and capital mobility policies that do not hinder its development. These are discussed in detail in Section I.

Belize's Economy and Financial System.

Belize is a small export-based economy dependent on tourism, agriculture and shrimp farming resulting in its vulnerability to external and weather related shocks, as well as to changes in preferential treatments for its products in foreign markets. After a contraction in 2016 and a slow recovery in 2017 (to 1.4%), the Belizean economy is projected to have grown by 2.2%, in 2018. A major hindrance to future growth of Belize's economy is its high level of public debt, even after restructuring its public external debt to commercial lenders several times in recent years. Public debt remains high, at around 92% of GDP, after signing a debt restructuring agreement with private external bondholders in March 2017, in addition to the debt restructuring of 2013. The high level of indebtedness remains a major threat to growth and macroeconomic stability in the country. The targets under the debt restructuring agreement should lead to a reduction of the level of debt over time. The government has promised to undertake several actions to reduce the public deficit and put public debt in a sustainable situation, in line with IMF recommendations, although it is not clear that these actions will be sufficient to bring the public debt to a downward trajectory.

If the debt restructuring is not accompanied by a credible and sustained program of ambitious fiscal consolidation, combined with structural reforms to boost growth, the macroeconomic situation of the country remains very vulnerable. This would lead to a high level of country risk, not conducive to the development of a domestic capital market - much less to the establishment of a Stock Exchange - even in the context of the existence of supply and demand for domestic debt and equity instruments in the country. There have been some improvements in Government finances, particularly in light of agreed targets under the terms of the bond restructuring.

The financial system in Belize comprises the CBB, five domestic private commercial banks of which one is the government-owned National Bank of Belize (NBB), four (4) international (offshore) banks of which three (3) are related by ownership to the private domestic banks, eight (8) credit unions, ten (10) domestic insurance companies, the state-owned Development

Finance Corporation (DFC) and the International Financial Services Commission (IFSC).¹ In addition, there is the Belize Social Security Board (BSSB) and various remittance service providers and money lenders. The system is dominated by the commercial banks that account for the bulk of the country's monetary liabilities and credit to the private sector.

According to the IMF, the major challenges to the stability of the financial system have been: (i) the threat of distress in the banking system, that faced high levels of Non Profit Loans (NPLs), with low levels of provisions and low capital buffers in various banks; (ii) the reduced financial services provided by global/regional banks due to loss of Correspondent Banking Relationships in 2015 and 2016 because of perceived weak platforms to control Anti-Money Laundering - Combating the Financing of Terrorism (AML/CFT) by the banking sector as a whole; (iii) macroeconomic vulnerabilities due to high debt levels and continued fiscal imbalances that imply further increases in gross financing requirements; and (iv) lack of complete information on the magnitude of connected lending and large exposures in the banking system. In recent Article IV Reports about Belize, the IMF recommended maintaining the financial system under tight supervision, strengthening loan provision regulations, carrying an assessment of asset quality to determine the appropriateness of capital buffers, and strengthening the capacity of the CBB to conduct AML/CFT risk-based supervision of banks.²

Belize's financial system does not have a developed capital market. This situation limits the access of firms to equity capital, forcing them to take on debt to finance their growth. The limited competition in Belize's financial system explains the high cost of credit and bank spreads (at around 8 percentage points on an annual basis). Banking spreads have remained between 8% and 9%, at least, during the past ten years. Thus, the importance of efforts to develop capital market instruments as an alternative to bank financing.

Current Development of the Local Capital Market.

Belize has a very underdeveloped securities market. The country basically has a primary market for government securities and there have been very few placements of private sector issues. There is no secondary market of public or private debt. The country lacks a Capital Markets Act or a Capital Market Regulator and, as a result, it lacks a legal regulatory framework for the development of a proper capital market. The government is aware of the need to introduce legal changes to provide an appropriate framework for market development and is planning on developing a draft legislation subsequent to the completion of this consultancy report. It recently acquired a platform to facilitate registration, compensation and settlement of government paper which is managed by the CBB.

The Government is by far the major borrower in the Belize capital market, a situation that is unlikely to change in the short run, due to its continued financing requirements and the various disincentives to private debt issues. The GOB has a large debt issued locally in Belize dollars amounting to BZ\$³885 million, as of September 2018. The main holders of the debt

¹ IFSC was established in Belize in 1999. Its aim is licensing financial companies, as well as controlling and supervising all regulated firms to bind all international financial services requirements to their activity.

² The most recent Article IV Consultation Staff Report was dated October 2018. (IMF 2018a)

³ BZ\$2= US\$1

are commercial banks (38.3%), followed by the Central Bank (34.2%). Other institutional investors, but with smaller positions, are the Social Security Board (8.5%), Insurance Companies (6.9%), Credit Unions (4.8%) and Pension Funds (2.9%). The general public holds the remaining 4.4%.

The CBB is an important player in the primary market of government securities, not only because it acts as the administrator and registrar of the various issues, but also because it holds a significant portion of the portfolio. More than one-third of domestic public debt is held by the CBB. Financing government spending from the CBB brings excessive liquidity into the market, which, if not sterilized, can put pressure on the exchange rate. As mentioned in the latest Article 4 Report of the IMF, the government financing by the CBB should be phased out and replaced by financing using securities market. Proactive debt management and more regular auctions of government paper would activate the domestic securities markets and could, over time generate savings on interest payments by developing a more competitive and active market for government paper.

The market for private sector securities is quite underdeveloped in Belize. In recent years, there have been very few issues of securities by the private sector in Belize. There is no market for a Stock Exchange in the country at this time, the government securities market is underdeveloped and the market for corporate bonds is almost non-existent. There is almost a complete absence of corporate bonds, debentures, convertible and other debt instruments, despite their potential attractiveness both to issuers and to investors (due to the low deposit rates and the high loan rates). The number of offerings of Equity subscriptions to the public has been even smaller. The supply of investible instruments has been limited due to the small market size and reliance on other sources of finance. As a small country with only a few sizeable companies and no listing from abroad, the number of issuers is naturally low. Corporations often lack the scale for issuing bonds, and find bank lending cheaper. The small size of the economy, with a small number of firms with large financing needs that bankers estimated at 20 clients big enough to be able to issue an IPO or even a bond issue larger than US\$5 million in size, limits the potential supply for instruments. On the other hand, there are few institutional investors with an appetite for equity or long-term investments. Finally, even if a Stock Exchange were established and some firms opted to issue shares, it is very likely that they would be bought by investors with a buy and hold purpose, thus limiting secondary trading in the Stock Exchange.

Private sector debt securities generally include short-term debt instruments, such as commercial paper, and longer-term debt securities, such as private sector bonds (with maturity of one year or more).

Assessment of Gaps for Capital Market Development

Belize ranks 125 overall in the World Bank Doing Business 2019 rankings that included 190 countries. The following set of indicators were selected considering their relevance to firms interested in funding through capital markets or to investors that could be interested in acquiring domestic securities: (i) registering property transfers, (ii) protection of legal rights, (iii) protection of minority investors, (iv) enforcing contracts, and (v) resolving insolvency.

There is room for improvement in several areas, notably in starting a business, getting credit, protecting investors, trading across borders and enforcing contracts. The World Bank's governance indicators also reveal some deterioration in the efficiency of the court system and in the quality of public services. Legislative improvements in these areas could be implemented without significant financial costs and are critical for the development of a domestic capital market. Reducing the cost of doing business, including cost of inputs, could help attract private investment and expand key export-oriented sectors. Access to affordable credit for farmers and Small and Medium Enterprises (SMEs) could be enhanced by establishing a credit bureau and a credit/collateral registry. Contract enforcement could be further strengthened by measures that improve the efficiency of the court system.

Improvements in all of these indicators would foster the development of the domestic capital market. In terms of importance for capital market development, high priority should be placed on: (i) getting credit and protection of legal rights, (ii) protecting of minority shareholders, (iii) enforcing contracts, and (iv) registering property transfers.

The Companies Act is the main law regulating the functioning of Private Sector companies in Belize. It is considered obsolete, lacking a full treatment of matters such as insider trading, protection of minority shareholders, prospectus requirements for new issues and information disclosure in general, among others. Significant efforts have to be undertaken to put in place a proper regulatory framework for securities trading. This effort has to start with the enactment of a Capital Market Act. Without it, it is very unlikely that much progress can be made in market development, short of minor improvements in the primary market for government securities, improving the coverage and timeliness of auctions of different securities and trying to develop a yield curve.

The existence of an adequate Financial Market Infrastructure (FMI) is critical to the development of securities markets. FMIs facilitate the efficient interaction of financial market participants and, enable the settlement of contractual obligations (trades) of multiple counterparties via a single entity rather than many bilateral relationships, reducing transaction costs between participants. The CBB engaged in a reform project to implement an Automated Payment and Securities Settlement System (APSSS) with the assistance of several international organizations. Several pillars of this system have been implemented from 2016 onwards, including a Central Securities Depository (CSD) System to manage primary market activities. As a result, Belize has a well-functioning, but limited CSD that is hosted in the CBB. It only handles government security registration and settlements on-line for primary market transactions involving the CBB and the five commercial banks. Any other transaction has to be intermediated through them and is not real-time. The CSD currently does not operate with private sector securities. The CBB has the possibility of purchasing additional capabilities to allow the CSD additional capabilities. Adequate depository and settlement procedures for cash and securities are critical to the development of a securities market development. The CSD is a good starting point that needs to be complemented with a trading platform and capabilities to settle private securities.

Guidelines to Pave the Way for Developing a Capital Market

A general conclusion of the diagnosis is that efforts to develop a capital market in Belize will face many challenges associated with the small size of the economy, such as:

- (i) the limited market due to a small number of potential issuers and investors;
- (ii) the lack of legal and regulatory frameworks;
- (iii) the inexistence of a regulator to carry out the supervisory role or enforcement;
- (iv) limited technical expertise and lack of securities intermediaries (such as brokers or dealers), and;
- (v) inadequate market infrastructure.⁴

Implementing an adequate macroeconomic, legal, regulatory and institutional framework that enables its development will not be an easy task.

While the task of developing a capital market will not be easy, and it appears unrealistic to think on the possibility of establishing a Stock Exchange in the country in the foreseeable future due to the factors listed in the previous paragraph, there is scope to improve the functioning of the primary market for government securities, to develop a secondary market for those securities and to implement some actions to help develop a market for private securities, particularly of debt instruments.

The GOB should consider taking a comprehensive long-term approach and draft a 10 year strategic master plan to guide capital market policy through 2028. Annex 1 describes the main reforms that are critical for the development of the market. Without a vision of what kind of capital market it wants to have in 10 years, not much will be achieved. The first step toward the development of the capital market in Belize would be the conviction on the part of the government on its importance for the country. If capital market development is not considered top priority in the country's development program, not much progress can be expected in this endeavour. The master plan would have to identify strategic pillars and policy actions to be implemented in the next years and define the staging or sequencing of the various proposals.

Suggested pillars include:

- (i) strengthening the macroeconomic conditions;
- (i) creating a robust legal and regulatory framework;
- (iii) strengthening the market infrastructure (specifically trading and settlement mechanisms);
- (iv) developing the government securities markets (primary and secondary); and
- (v) promoting the growth of private securities as alternative to traditional financing sources.

The country could also contemplate implementing a phased approach to the development of the domestic bond market by starting with consensus building. The capital market can be, and should be, developed in stages. Development of a well-functioning government bond market in developing countries will often precede and facilitate development of a private sector bond market. Therefore, initial efforts should be placed in developing the primary and

⁴ Belize has a GDP of US\$ 1.8 billion in 2017 and ranks 162 of 190 countries in the World Bank Database.

secondary markets for government securities. Private debt markets need other elements to be successful, most notably a disclosure system, a credit-rating system, and bankruptcy laws.

Belize could seek assistance from international organizations to develop its strategy for capital market development. The World Bank, IFC and the IDB have extensive experience helping countries develop capital markets and accessing international markets for investment financing. This includes both transactions and advisory support, including a broad range of activities aimed at developing both government and non-government bond markets and equity markets. In the case of IDB, it also offers non-reimbursable technical cooperation packages that can be used to pay for advisory services and basic market infrastructure.

The development of capital markets in Belize as in other developing countries will require important macroeconomic policy decisions. The fiscal fragility of the economy and the high indebtedness does not contribute to the development of a healthy securities market. The macroeconomic developments which influence market expectations will have to be addressed through Government stabilization and reform programs. The size of the Belizean economy puts a limit on its possibilities of developing a capital market based on its local investors. If the decision is to maintain capital controls, the potential for market growth will be dampened due to the lack of foreign portfolio investors. This is an important policy decision that will have to be discussed when preparing the proposed master plan.

Addressing sector-specific issues will require legal, regulatory and policy changes. The Government is aware of the need to make changes to promote the development of capital markets and to correct a series of deficiencies in the current legal framework which inhibit investor interest in the market, restricts the development of new instruments, and discourages issuers of equity and fixed income securities.

A Capital Market Act is critical and it has to include who will be the regulator, establish certification and licensing requirements for market participants and introduce minimum information disclosure requirements for issuers and intermediaries and for protecting the interests of minority investors. A careful balance has to be attained between market fairness and efficiency on one side, and avoiding suffocating the market with heavy-handed regulations on the other.

Based on the analysis of capital markets elsewhere, it would appear that new legislation or a policy framework should include:

- (i) the development of an active primary and secondary market for government securities;
- (ii) the clarification of the legal and regulatory framework concerning corporate bonds;
- (iii) the equitable treatment for public and private securities (including tax neutrality);
- (iv) a review of current legislation to facilitate the development of mutual funds;
- (v) the creation of a securities authority to establish a basic, but limited framework of regulations to license brokers and authorize issues; and

- (vi) a review of taxes on financial instruments, including the elimination of Stamp Duty Tax on private security transactions.

In addition, the government should ensure that legal and regulatory provisions are in place to increase disclosure of information to market participants. It is also necessary to develop an education program not only to enhance the knowledge of market participants, on the demand and supply side, on the advantages of the capital market, but also to educate the general public on what is a capital market, its purpose, its functioning and the benefits it can bring to enterprises and investors. There is also a need to assist in the development of institutional investors, facilitating their capacity to invest in private issues. The development of the capital market would also benefit by reducing the strong weight of the CBB in the government paper market, by strengthening the primary issue of government debt, increasing information disclosure on prices and volumes transacted and working on developing a real secondary market of government paper.

The CSD is a good starting point to implement a platform for secondary market transactions. It is very positive that the country has a CSD even if its current functionalities are limited to the registering and settlement of transactions in the primary market of government securities. Therefore, it is important to complement it with a platform for trading securities. The firm that provided the CSD to the CBB has a multi-currency Trading System (TS) that is designed to support the trading of any security that is supported by its CSD system. Its TS Solution consists of modules and interfaces designed to offer a complete range of trading functions that could easily be linked to the CSD.

Critical decisions have to be made in respect of the functioning of that trading platform and even of the CSD. Who will be responsible for its operation? Who will regulate it? Which market participants will be allowed to operate in it? What instruments could be intermediated? Such questions need to be addressed early in the process.

If only larger companies could benefit from the use of that platform to finance their operations, the financing requirements of SMEs would not be resolved. For that, the government should implement a Credit Bureau System, a Collateral Registry and establish a SME Credit Guarantee Fund, which have been recommended in several studies done in the past decade aimed at identifying and solving constraints to private sector development.⁵ In this respect there is no need for further studies, the issues are the same, as well as, the solutions. If the platform is allowed to be used for trading of commercial invoices or promissory notes, it could benefit a larger number of firms, but this would require adequate regulations to protect investors.

The government holds important stakes in some enterprises. To support the development of the equity market, when the time is right, the government could even consider offloading its shareholdings in selected companies in the corporate sector to spur participation and growth, for instance part its shares in Belize Telemedia Limited (BTL), Belize Electricity Limited (BEL) and the Belize Water Services Limited (BWSL).

⁵ These studies are listed in Section II. B. Constraints to Private Sector Development.

Section V of this report provides more details on the suggested guidelines to pave the way for the development of a capital market in the country.

I. Benefits of a Well-Functioning Local Capital Market and Preconditions for its Development

As mentioned by Laeven (2014), local capital markets offer several benefits to borrowers and investors, including governments. The benefits are realized through various means:

- (i) by allowing governments to finance large fiscal deficits without having to resort to financial repression or foreign borrowing;
- (ii) by fostering the development of money and bond markets to support the conduct of monetary policy by providing money and bond market instruments;
- (iii) by improving the availability of long term financing, therefore, allowing households and firms to better manage interest rate and maturity risk associated with long-term investments;
- (iv) by improving access to local currency financing;
- (v) by allowing for financial deepening alongside the development of banking markets, thus improving the efficiency of capital allocation in the economy;
- (vi) by leading to the opening of foreign investments, thus, increasing financial integration by attracting foreign capital, which can lower the cost of capital for local firms and household and improve risk sharing across countries, potentially improving market access and relieve credit constraints on small and medium-sized enterprises; and
- (vii) by enhancing financial stability, thus facilitating the ability of financial institutions to manage risk.

There are other potential advantages of securities markets over bank financing and internal financing to finance firm growth. These advantages are as follows:

- (i) firms in countries with strong securities markets rely more on equity and long-term debt financing and less on bank loans and short-term debt;
- (ii) a securities capital market lets companies rely more heavily on external capital and less on internal capital;
- (iii) strong securities markets in the context of an open capital account allows foreign capital inflows to support domestic growth; and
- (iv) to develop securities markets, institutional strengthening is necessary to also strengthen the banking system (accounting rules, auditing, better judicial system, better financial markets infrastructure, among others).

A proper mix of equity and debt is very important to foster enterprise growth. It would be constrained without debt financing since private enterprises either obtain debt financing-indirectly from banks or directly by issuing bonds in the capital market. Debt securities are more effective to fund long-term activities, while bank loans are cost effective for short-term, small-scale, and recurring financing by borrowers. Despite all these advantages, the development of the capital markets has to be undertaken with care, considering the specific

characteristics of each country and taking into account the importance of sequencing the various reforms.

The development of a capital market involves a series of elements that will first allow its existence, and then facilitate its growth and prosperity. First of all, you need the existence of firms willing to issue securities because they believe that they can obtain lower cost of finance for their projects or operations; that is, the supply, and investors interested in acquiring these issues in order to obtain a better risk-return structure, that is, the demand. The existence of an adequate supply and demand is fundamental to the existence of a capital market, but is insufficient for its development. In addition to adequate supply and demand, there are supporting factors or elements that need to be considered. There are various enabling elements that foster the development of this market. These include the stage of economic development or economic situation of the country, the regulatory and legal framework, the existence of market infrastructure, education and public awareness, taxation policy and foreign exchange regulations.⁶

Capital markets need a critical mass of securities, investors, and funds for their efficient functioning. However, the size of the economy appears to be more critical for the development of a private sector bond market than for the development of a government bond market. Therefore, a private sector bond market may be more difficult to develop in a small economy. This is a major issue for Belize which is one of the smallest economies in the world.

There are various preconditions for the development of a well-functioning local capital market: (i) macroeconomic stability and sound macroeconomic policies; (ii) a proper regulatory and legal framework (including a basic market infrastructure); (iii) adequate taxation policies, and (iv) foreign exchange regulations and capital mobility policies that do not hinder its development.

A. Macroeconomic Stability and Sound Macroeconomic Policies

Economic growth and per capita GDP are very important determinants for the development of a capital market. Higher economic growth results in more investments which encourages the issuance of debt and equity securities. On the other hand, the rise of per capita GDP increases savings and, therefore, the demand for securities. Income inequality and the ratio of savings to GDP are also critical elements, since income inequality and a low ratio of savings to GDP reduce the potential for developing a capital market.

Not only economic growth is important, but also macroeconomic stability. A stable macroeconomic environment is crucial for developing a capital market. Rationale and predictable economic policies enhance the confidence of both issuers and investors. Conservative macroeconomic policies are a sine qua non condition for the development of capital markets. The operation of a financial system is dependent on overall economic

⁶ Black (2001).

activity, and financial institutions are significantly affected by macroeconomic instability and uncertainty.

Several studies of financial sector stability, such as the Financial Sector Assessment Programs (FSAP) produced by the IMF and World Bank in various countries have concluded that a fragile macroeconomic environment can include a falling growth rate, deterioration in the balance of payments, high and unsustainable government debt, high inflation, volatile exchange rates, credit booms, weakening performance of export sectors, and deterioration in the terms of trade affects the stability of the financial system and retards the development of its capital market. In addition, these studies highlight non-quantifiable indicators of financial fragility, such as: deficient banking supervision, inadequate instruments of monetary control, overly generous deposit insurance, inadequacies in the operation of the legal system, overexposure in international financial markets, lack of adequate accounting standards and practices, insufficient financial disclosure, and perverse incentive structures. In short, inadequate macroeconomic policies, result in a fragile economy and hampers the development of a capital market.

The lack of sound macroeconomic policies not only impedes the development of local capital markets, but can also become a source of weakness for the economy, as the local capital markets develop and integrate with global markets, increasing its vulnerability to external shocks.⁷ As will be shown in a following section, Belize's macroeconomic environment is a major hindrance to the development of a well-functioning capital market.

B. Regulatory and Legal Framework

An adequate regulatory framework is a critical element for capital market development. Without strong regulations and an adequate legal framework for issuers of securities, market intermediaries (such as broker/dealers or brokerage houses), asset managers, payment and settlement processes, transparency requirements and investor protection, among others; investor confidence will not be fostered, and a capital market will not develop. The three essential elements of an appropriate framework are:

- (i) the legal framework itself;
- (ii) supervision of this set of laws; and
- (iii) the enforcement of this set of laws.

It is also important to consider that excessive regulation can stifle the development of the capital market, therefore, a crucial balance has to be maintained between encouraging the "animal spirits" of the free market forces to flow, and supporting market confidence and investor protection. Either excess or under-regulation will retard capital market development.

The International Finance Corporation (IFC) has several regulatory indicators to assess the adequacy of the capital market frameworks of different countries, such as:

- (i) accounting standards;

⁷ Laeven (2014), De la Torre, A., Gozzi J.C. and Schmukler, S. (2007) and Milesi-Ferretti, G.M. and Tille, C. (2011)

- (ii) the quality of investor protection;
- (iii) whether the country has a regulatory authority such as a Securities and Exchange Commission;
- (iv) restrictions on dividend and capital repatriation by foreign investors; and
- (v) restrictions on domestic investment by foreigners.⁸

The status of these indicators, in the case of Belize, is analysed later in the report (Section III).

Financial Market Infrastructure (FMI)

FMIs are categorized as exchanges, central counterparties, trade repositories and central securities depositories. The purpose of FMIs has been to facilitate the efficient interaction of financial market participants. They enable the settlement of contractual obligations (trades) of multiple counterparties via a single entity rather than many bilateral relationships. In classic economic terms, they reduce transaction costs between participants.

Central Counterparties (CCPs) are firms which interpose themselves between market participants when they trade financial instruments and effectively guarantee the obligations agreed between the two counterparties. If one party fails, the CCP has dedicated resources available to pay any outstanding obligations to the other counterparty. They have become much more important in recent years particularly as a result of regulatory reform following the global financial crisis and are considered by regulators as crucial “firewalls” to prevent contagion in the event of future crises. A CCP acts as the buyer to every seller, and the seller to every buyer in a market. It does so by interposing itself as the legal counterparty to all purchases and sales typically via a process known as novation.

Central Securities Depositories (CSDs) are financial market infrastructures that guarantee the initial recording and subsequent transfer of securities. CSDs are usually linked to Securities Settlement Facilities (SSFs) or the CSDs also provide this service. SSFs provide for the final settlement of securities transactions. Settlement involves transfer of the title to the security and transfer of cash. These functions are linked via appropriate delivery-versus-payment arrangements incorporated within the settlement process. A CSD is a systemically important institution in the securities market that provides a specific range of services to securities issuers, enabling market participants to fulfill the obligation of transferring securities and making payments for them as the final phase of the transfer of securities from the seller to the buyer.

A CSD may offer its clients a diverse range of services, which varies in individual countries according to the level of development and the size of the local securities market, as well as, its cross-border connections. A CSD’s key services include the initial recording of securities in a book-entry system, providing and maintaining securities accounts at the top tier level (central maintenance service), and operating a securities settlement system (settlement service). It can also be used for different types of securities (public and private) and to register trades in primary and secondary markets.

⁸ IFC (2017)

When we have to settle our financial transactions we need to trust these institutions to carry out that transfer of value. The asset becomes an “intermediated asset” where our intermediaries exchange those assets in their own names on our behalf. To transfer the value, behind your account is an asset custody and settlement process. This will normally require an FMI to intermediate the relationships between multiple banks, brokers and so on.

FMI's are key components of the financial system, delivering services critical to the smooth functioning of financial markets. Well-designed and reliable FMI's can be a source of both financial stability and operational efficiency. FMI's act as a coordinating device, bringing a network of counterparties together to support trading liquidity and the netting of exposures and settlement obligations. They also establish secure arrangements for the timely clearing and settlement of obligations between counterparties, assist institutions in the management of counterparty credit risks, and help to coordinate actions in the event of a market participant's default.

C. Taxation Policy

Taxation policies exert a very important influence on capital markets, since investors are concerned about the after-tax return on their investments. Unequal taxation favouring certain instruments over others, can affect the balance between the different type of financial products and bias investor decisions. For instance, many countries favour bank deposits over corporate debt, by exempting interest on deposits from income tax. Most countries have implanted double taxation on company profits since they are taxed at the company level and then the investors have to pay income tax on dividends received. In addition, they have to pay taxes on capital gains when shares or bonds are sold. Taxes do not only affect investors but also issuers, particularly of equity capital, because most countries allow the deduction of interest as expense for corporate income tax purposes, encouraging debt over equity issues.

D. Foreign Exchange Regulations and Capital Controls

Several developing economies use foreign exchange controls to limit speculation against their currencies. They are often accompanied by capital controls that have the unintended effect of limiting the amount of foreign investment in the country. There is extensive literature that proves that capital controls hamper the development of the domestic capital markets.⁹ There is consensus of the important role that foreign portfolio investment plays in capital markets (although it plays a lower role in developing country markets). Empirical research finds evidence on the increase of shares prices, as well as, a reduction in the cost of capital due to capital account liberalization. An open capital account is expected to lead to deeper and more efficient stock markets. Foreign investors need assurance that they can repatriate their funds and profits as a prerequisite to invest abroad, thus the importance of an open economy with few capital controls. On the other hand, recipient countries are worried about the destabilizing effects of the inflows and outflows of foreign exchange, a situation that is even more complicated under a fixed exchange regime, which makes them reluctant to liberalize capital flows.

⁹ Levine and Zervos (1998), Forbes (2005), Harrison, Love and McMillan (2004), Chinn (2001), and Chinn and Ito (2006), among others.

The external challenges to a country with an open capital account involve an abrupt change in global financial conditions and international investor appetite for risk. The composition of inflows is also important, if a large part is in short-term investments, the risk of a sudden withdrawal is high, if international investors adjust their portfolios abruptly. However, with strong macroeconomic performance, including an improved debt composition, a well-supervised financial system, and diversified domestic markets, the external vulnerability would be reduced. There are pros and cons to the liberalization of the capital account that have to be weighted because of its strong impact on the development of the capital market. Paraphrasing Levine and Zervos (1998), “while capital control liberalization does not represent a financial elixir for economic growth, there are good reasons to believe that lowering barriers to international investing will boost equity market development and promote economic growth”.

Empirical results of Chinn and Ito (2006) suggested that a higher level of financial openness contributes both legal and institutional development to the development of equity markets. They also found that the effect of financial opening in the development of equity markets is enhanced by a higher level of bureaucratic quality, law and order and legal/institutional development.

II. An Overview of Belize’s Economy and Financial System

A. Belize’s Economy and Recent Developments

Macroeconomic Environment and Growth

Belize is a small export-based economy dependent on tourism, shrimp farming and agriculture as a result of which it is vulnerable to external and weather related shocks, as well as, to changes in preferential treatments for its products in foreign markets. It is one of the smallest countries in the world in terms of GDP (162 of 190 countries in the World Bank database). It has an open, private sector led economy based primarily on agriculture, tourism, and services. Tourism remains the nation’s largest foreign exchange earner. The sector is expected to increase further over the next several years with additional airline routes, the Norwegian Cruise Line private island terminal and destination already in operation, and further investments in hotels.

Despite significant decreases in earnings across all major commodities for 2016, the agriculture and agro-productive sectors is the second most important activity in the country. In 2016, this economic sector faced many challenges including diseases that reduced production of citrus fruits and shrimp, Hurricane Earl which caused wind and flood damage to banana and grains, and poor deteriorating infrastructure which added to the cost and time of getting products to markets affecting exports and the growth of the economy. The situation has improved and more recent data would indicate that except for citrus, production in other industries is turning around. Furthermore, municipalities have been working to upgrade their infrastructure.

Table 1: Population and Employment Figures				
	2014	2015	2016	2017
Total Population (Thous.)	356.9	366.3	375.9	385.8
Employed Labour Force (Thous.)	134.6	138.1	146.9	150.1
Unemployment (%)	11.1	10.1	8.0	9.0

Source: MOF, SIB and CBB

The United States is Belize's lead trading partner as the major importing partner and second largest export destination after the United Kingdom. Other major trading partners for imports included Central America, Mexico, Netherlands Antilles, and China; other major trading partners for exports included the United Kingdom, other European Union countries and Caribbean Community (CARICOM).

The relative strengths of the Belizean economy include an abundance of land, forest, and water resources, Belize's proximity to the United States and the country's historically close ties to the United Kingdom. Belize's environmental resources also create substantial opportunities in the nature-based tourism market. However, Belize also faces many of the challenges associated with a small economy, such as small production volumes, limited economic diversification, limited human resources and high telecommunications and electricity costs. In addition, poverty was estimated at 41% in 2009, higher than in 2002, instead of declining like in most of the Latin and Central American (LAC) countries during the same period.¹⁰ There are no more recent poverty figures for the country.

After a contraction in 2016 and a slow recovery in 2017 (to 1.4%), the IMF projects that the Belizean economy will grow more strongly, by 2.2%, in 2018.¹¹ The anemic performance in 2017 was driven chiefly by a contraction in manufacturing and weak growth in the services sector; the primary sector, however, rebounded after a sharp decline in 2016.

Output in the primary sector is expected to increase due in part to the surge in the production of sugar cane and banana and to an increase in the quantity of bananas exported. These factors have compensated for the continued decline in the production of papaya that used to be an important source of export revenues and for the reduction in citrus production due to disease and the devastation caused by Hurricane Earl in 2016.

The most recent GDP figures published by the Statistical Institute of Belize (SIB) shows that GDP grew 3.4% in the first half of 2018 when compared against the same period of 2017. It shows in the second quarter that economic activity in all three sectors was up when compared with the same period in 2017. The report shows growth for major industries in the primary sector – sugar, bananas, and livestock, and declines in citrus and marine production. In the secondary sector, growth took place in electricity, water, construction, and beverage manufacturing, with citrus concentrate showing a decline of 36%. Finally, the growth in the

¹⁰ Martin (2015)

¹¹ IMF (2018 and 2018a)

tertiary, tourism and services sectors, which account for more than half of GDP, was 3.8%. Both cruise and overnight tourism keeps growing as more and more visitors come to our shores. These are good news, but its sustainability is not clear.

	2014	2015	2016	2017
GDP (BZ\$ Million)	3,407.9	3,557.1	3,640.3	3,727.7
Real GDP Growth (%)	3.0	1.7	-0.3	1.4
Per Capita GDP (BZ\$)	9,547	9,711	9,684	9,663
Gross National Savings Rate	11.3	12.1	11.3	11.0
Inflation	1.2	-0.9	0.7	1.1
Trade Balance	-349.6	-423.4	-432.3	-388.3
Tourism	373.8	371.3	390.4	426.7

Source: CBB, SIB and IMF

Debt Overhang

A major hindrance to future growth of the Belize economy is its high level of public debt, even after restructuring its public external debt to commercial lenders three times between 2007 and 2017. Belize's public debt-to-GDP ratio and risks of future debt distress remain high as mentioned in recent documents of international organizations and even a paper by CBB officials.¹² Public debt remains high, at around 92 percent of GDP, after signing a debt restructuring agreement with private external bondholders on March 2017 (in addition to the debt restructuring of 2013). It is expected that the fiscal targets agreed in this restructuring will result in lower debt levels over time. The high level of indebtedness remains a major threat to growth and macroeconomic stability in the country. The government has promised to undertake several actions to reduce the public deficit and put public debt on a sustainable situation, in line with IMF recommendations, although it is not clear that they will be sufficient to bring the public debt to a downward trajectory. In this context, the IMF projects medium term economic growth at about 2%.

	2014	2015	2016R	2017P
Disbursed Outstanding External Debt (US\$ Million)	1,126	1,177	1,203	1,256
External Debt Service Payments (US\$ Million)	76.3	125.0	83.9	85.1
Ratio Of External Debt to GDP (%)	66.1	66.2	66.1	67.4
Disbursed Outstanding Domestic Debt (BZ\$ Million)	376.1	494.4	747.8	1,026.5
Domestic Debt Service Payments (US\$ Million)	17.0	27.4	18.3	34.1

Source: CBB

The debt agreement reduced the cost of servicing a relatively expensive part of external debt, but in the absence of a nominal reduction of principal, the overall level of public debt remains

¹² Ford and Roberts (2017). Paper does not necessarily represents the views of the institution as such.

high. Additional debt restructurings, quite likely in the current situation, could undermine Belize's credibility and risks loss of access to capital markets for an extended period, in turn, hurting prospects for strong and sustainable growth. Belize's current fiscal policy and public debt are unsustainable—therefore, the IMF recommended that Government raises its primary fiscal balance to 4-5 percent of GDP over the near to medium term to lower the level of public debt to a “safe” but arbitrary debt-to-GDP threshold of 60% of GDP by 2025 (International Monetary Fund, 2016, 2017 and 2018). It recommended that the GOB implements a well-designed fiscal rule that targets debt reduction to 60% of GDP, similar to schemes implemented in Grenada and Jamaica, which have been successful in putting debt on a clear downward path.¹³ There have been some improvements in Government finances, particularly in light of agreed targets under the terms of the bond restructuring.

If the debt restructuring is not accompanied by a credible and sustained program of ambitious fiscal consolidation, combined with structural reforms to boost growth, the macroeconomic situation of the country remains very vulnerable. If this is not done, it could lead to a high level of country risk, not conducive to the development of a domestic capital market - much less to the establishment of a Stock Exchange - even in the context of the existence of supply and demand for domestic debt and equity instruments in the country.

B. Constraints to Private Sector Development

Various studies produced in Belize in recent years have identified the main deterrents to private sector development in the country and have proposed several actions to promote growth.¹⁴ Belize's Growth and Sustainable Development Strategy 2016-2019 (GSDS), the country's current national development plan, states that access to financing for private sector activity is a critical constraint to development and includes in its program many of the recommendations of these prior studies.¹⁵ Two major challenges for the country are to develop a sustainable financing strategy for the GSDS and to improve the business climate in the country. The GSDS indicates that there is a need to address several facets in that regard, ranging from the availability of resources, associated hindrances such as collateral requirements, and the use of an appropriate mix of financing tools. It also mentions that many firms may be highly leveraged, and some, due to insufficient options or guidance, have pursued loan funding prematurely. It also concludes that some enterprises could benefit from other forms of financing (besides loan financing) to develop to their full potential, but did not mention the need for establishing a Stock Exchange or for developing the local capital market.

The GSDS proposed the following actions to improve access to finance for firms : (i) ensure that the Development Finance Corporation (DFC) continues efforts to secure financing from multilateral institutions to support its on-lending and to provide equity financing to firms; (ii) develop a secure transactions registry to facilitate the use of movable collateral such as inventory, accounts receivable, livestock, crops, equipment, and machinery to guarantee credit, thus increasing its access to the private sector and reducing its cost; and (iii) develop

¹³ IMF (2018 and 2018a)

¹⁴ Seepersaud (2012), BCCI (2013), IDB et.al. (2014), Martin (2015), CDB (2016)

¹⁵ GOB (2016).

other development financing instruments (such as venture capital and export financing).¹⁶ These are all sensible recommendations not yet implemented.

The GSDS also suggested that efforts to improve the efficiency and soundness of the financial system should be continued. It stated that the CBB would continue efforts to reduce the level of Non-Performing Loans (NPLs) to under 6% over the medium term and will also continue to implement reforms based on the recommendations of the FSAP of the IMF/WB. The level of NPLs has been steadily declining and stood at 6.8% at the end of 2018 according to CBB officials.

The GSDS also indicated that to improve access to, and reduce the cost of, financing GOB (through the leadership of the DFC) will take actions to improve access to finance and to reduce the cost of financing, including measures designed to: (i) expand access to credit through the DFC; (ii) establish a collateral registry; (iii) reduce the cost of financing to DFC; (iv) provide venture capital options to entrepreneurs; and (v) increase access to export financing. It was expected that increased financing options were likely to contribute to more efficient pricing by the commercial banking sector. Other actions included encouraging greater use of domestic savings for domestic investment, and fostering CBB efforts to establish a National Payments System (an inter-bank, real time payments system) (NPS) and a National Credit Reporting System (NCRS).

A recent IDB financed study on the determinants of and constraints to economic growth in Belize, found that the binding constraint to economic growth in Belize is a longstanding and unintentional, anti-export bias of public policies.¹⁷ The most important aspect of the anti-export bias is the tax and trade policy framework, which skews incentives against exports. The study indicates that the tax structure, especially the high import duties, creates an anti-export bias by pushing up costs for all producers who use imported inputs undermining their competitiveness and tariff protection. This causes higher prices in the domestic market, raising the profitability of import-substituting activities relative to export activities. Belize has a strong potential in agriculture, agri-business, tourism and energy, which could be further developed with assistance from international financial institutions. Reducing the cost of doing business, including cost of inputs, could help attract private investment and expand key export-oriented sectors. This includes improving infrastructure (roads, ports and airports) and improving the efficiency of logistical services.

The study also concluded that the cost of finance is a key concern of the private sector and may represent a second constraint to growth. As mentioned earlier, despite a considerable decline in lending interest rates, they remain high in absolute terms and compared to those in developing countries that have had high investment rates. Firms try to get around the high cost of credit by relying heavily on internal funding. In recent surveys and studies of the private sector, access to finance is the factor more frequently cited as a major concern and obstacle to business development, and the main recommendations to improve access to

¹⁶ The DFC was supposed to prepare a feasibility study to determine the viability of establishing a venture capital fund or a framework for venture capital financing, and to design the way in which such a fund or framework would operate.

¹⁷ Martin (2015)

finance, particularly for SME, include setting a collateral registry and a credit bureau system. The introduction of credit bureaus and/or credit scoring, along with a collateral registry and a credit guarantee fund, would facilitate financial inclusion with improved credit analysis and collateral security, thus increasing access to credit. These important proposals remain on the drawing board.

IDB's Country Strategy for Belize includes four priority areas for Bank action: education, sustainable tourism, trade and tax policy and transport. With regards to trade and tax policy, it aims at supporting government efforts to foster faster growth of exports of goods and services by strengthening the economic efficiency, equity and simplicity of the tax system through a reduction in the burden of trade taxation and a compensatory increased reliance on more efficient forms of indirect taxation, as well as, by lessening non-tax barriers to trade.¹⁸ In addition to these four priority areas, IDB is also supporting other sectors, including financial markets and private firms and SME development.

Belize has received support from various international organizations in recent years to strengthen its financial markets. A 2017 World Bank report on Belize highlighted that despite the current excess liquidity across the banking sector, credit growth is limited (particularly for SMEs), the cost of credit is relatively high, and access to finance has been identified as one of the most binding constraints to enterprise growth. It stressed that the availability of credit is limited and lending has not expanded significantly over the past few years. It also mentioned, as other recent studies on the subject, that this is the reflection of a combination of structural factors in the financial sector, including financial stability challenges and financial sector infrastructure shortcomings, which together constitute barriers on credit, investment, and private sector growth.¹⁹

To support efforts to improve access to credit and reduce its costs, the IFC provided both analytical and technical assistance to the CBB in drafting the credit bureau legislation, holding credit reporting workshops, as well as, developing a public awareness campaign. IFC also provided analytical review of the secured transactions framework in 2015, with a diagnostic report, including recommendations for reform. These efforts were geared toward developing the underlying legal and regulatory framework and promoting institutional capacity for the introduction of a moving collateral registry and a credit bureau.

The country is currently receiving support from the WBG to complement efforts by the CBB to enhance access to finance including credit reporting systems, secured transactions and collateral registry frameworks, and payments and settlement systems. This support also aims to promote consumer protection and financial literacy capacity, as a way to foster safe and responsible financing practices. The country needs international assistance to support the CBB efforts to strengthen the regulation and supervision of financial intermediaries that play a key role in supporting access to finance (including credit unions) and encouraging growth of financial instruments for SMEs and other underserved groups. These are areas in which institutions like the IDB and the WBG could provide complementary assistance to coordinate efforts with other partners supporting access to finance for SMEs in Belize. There is

¹⁸ IDB (2013) "Country Strategy with Belize 2013-2017", November.

¹⁹ The Country Partnership Framework (CPF) of the World Bank.

consensus on the need to improve access to credit to SMEs in Belize and agreement on the various actions that need to be carried out to support government efforts in this direction.

There have been several diagnostic studies on SME financing that included proposals and specific recommendations of measures that would improve access to credit that have yet to be implemented (such as establishing a Credit Bureau or a Collateral Registry, among others). The following studies have, directly or indirectly, touched on the problem of access to financing and its cost:

- (i) Martin, D. (2015). “Rekindling Economic Growth in Belize”. IDB Technical Note No 820.
- (ii) CDB (2016). “Micro-Small-Medium Enterprise Development in the Caribbean: Towards a New Frontier”.
- (iii) Seepersaud, Michael M. (2012). Belize MSME Policy and Strategy. Produced for BELTRAIDE and the Caribbean Development Fund (CDB).
- (iv) BCCI (2013). “Revised White Paper on Investments in Belize: A Strategy for Innovation, Competitiveness, Entrepreneurship and Private Sector Development”.
- (v) GOB (2016). “Growth and Sustainable Development Strategy for Belize (GSDS).
- (vi) WBG (2017). “Country Partnership Framework for Belize for the Period FY18-22”.

In 2015, the Multilateral Investment Fund (MIF) of the IDB approved a Technical Cooperation to support the Belize Trade and Investment Development (BELTRAIDE) Services in “Mobilizing Access to SME Finance through Improved Capacity and Effectiveness”.²⁰ This technical cooperation was approved in response to the conclusions of the National Micro, Small and Medium Sized Enterprise Policy and Strategy (2012)²¹ that identified that a primary bottleneck for small and medium-sized enterprise growth in Belize is access to affordable credit. This obstacle has largely been due to financial institutions (FIs) having not developed strategies for addressing SMEs financing needs, based on the premise that SMEs do not meet standard FI lending criteria.

The report concluded that the constraints to access to finance in Belize emanate from deficiencies both on the demand and supply side. On the demand side, it found that the typical SMEs have low levels of technical and managerial skills required to develop profitable enterprises; which is a prerequisite for creditworthiness. The high level of informality and low capacity for financial management amongst SMEs makes it difficult for them to produce the financial history required for credit assessment. Poor market insight and the inability to achieve product differentiation adversely impact SMEs competitiveness and thus their sustainability. Businesses that cannot demonstrate their profitability and sustainability will logically find it difficult to access finance through formal financial systems.

On the supply side, financial institutions face an information asymmetry challenge, in that poor record-keeping by SMEs results in financial and other business information not being readily available and verifiable. The lack of market data on SMEs also limits insight into the

²⁰ MIF (2015). “Mobilizing Access to SME Finance through Improved Capacity and Effectiveness”. BL-M1011, ATN/ME 15338-BL

²¹ Seepersaud, (2012).

opportunities and needs of these SMEs. This prevents FIs from launching tailored financial instruments that address the specific needs and requirements of the SME segments. FIs indicated that they have limited knowledge to assess the credit risk of SMEs, for designing appropriate financial products and services, and for effectively managing SME loan portfolios.

The MIF operation was designed to bridge the gap between the SMEs capabilities to better manage their businesses and demonstrate their eligibility for financing and the capacity of FIs to design financial products and services tailored to the needs and realities of the SMEs. FIs in Belize expressed their interest in growing their SME loan portfolios given high levels of excess liquidity therefore, they were interested in being engaged in and leveraging existing SME training programs that will provide a pool of creditworthy SME clients. The MIF's contribution in bridging both sides of the equation will strengthen the entire SME finance ecosystem by complementing and fostering: i) the sustainability and effectiveness of FIs SME loan portfolio activities; and ii) meaningful SME growth and enhanced value-added services for the Small Business Development Centre Belize (SBDCBelize) to SMEs.

The objective of this project is to strengthen the ecosystem for SME finance by establishing a collaborative mechanism fostering linkages between Financial Institutions and SME business development services providers, effectively linking demand and supply with respect to financial services. Another objective is to increase access to financial and non-financial products and services for unserved and underserved small businesses in Belize. This project is unique in its bridging of the gap between SME financial services providers and a business development service (BDS) provider; namely, SBDCBelize.

Thus, there is no need for further diagnostic studies on access to credit to SMEs, rather for more active implementation of the various recommendations listed in these studies. None of the studies mentioned the need for developing a local capital market or a Stock Exchange, as being critical to develop the private sector, probably because they thought that there are other actions that should be carried out previously. The MIF Technical Cooperation to support BELTRAIDE, currently under implementation, is a move in the right direction.

C. Belize's Financial System and its Supervision²²

Structure of the System

The financial system in Belize comprises the CBB, five domestic private commercial banks of which one is government-owned NBB, four international (offshore) banks, three of which are related by ownership to the private domestic banks, eight credit unions, ten domestic insurance companies, and the state-owned DFC and the IFSC. In addition, there is the BSSB and various remittance service providers and moneylenders. The system is dominated by the commercial banks that account for the bulk of the country's monetary liabilities and credit to the private sector.

²² This section is based on "Belize Selected Issues" produced by the IMF in 2016 and on public information provided by the CBB.

The country also has the IFSC which is the Belize government agency responsible for financial regulation. It is responsible for regulating all financial market participants, exchanges and the setting and enforcing of financial regulations. IFSC was established in Belize in 1999. The aim of the IFSC is licensing of financial companies, as well as controlling and supervising all regulated firms to bind all international financial services requirements to their activity. IFSC is regulated by the Ministry of Belize Securities and International Financial Services Commission Act.

There are a number of ways in which businesses may obtain finance in Belize. Belize's commercial banks offer traditional banking services such as consumer and commercial loans, sale of foreign currencies, credit cards, savings, current and deposit accounts. Banks also provide letters of credit and bank guarantees. Belize's international banks offer traditional banking services in foreign currencies to non-residents, offering advantageous lending rates, and can transact business with resident entities operating in Export Processing Zones and Commercial Free Zones, as well as, with entities that are majority owned by the GOB, or jointly owned by the GOB and the BSSB.²³ Credit unions operate as non-profit co-operatives that function as savings banks, offering mainly savings accounts and loans to their shareholders. Other types of financial institutions can offer non-banking financial services such as merchant or investment banking, collective investment schemes and credit cards, but they are almost non-existent in the country.

Table 4²⁴: Structure of Belize Financial System (as of June 2018)			
	No. of Institutions	Asset Size (BZ\$ million)	% of Total
Depository Institutions			
Domestic Banks	5	3,300	62.8
Int'l. Banks	4	587.3	11.2
Credit Unions	8	970	18.5
Non-depository			
DFC	1	105	2.0
Insurance Cos.			
Life	3	187	3.6
Non-life	5	69	1.3
Composite	2	34	0.6

Source: CCB

Belize has onshore and offshore financial activities. Generally, Belizean citizens and foreigners with official residency status are allowed to deposit and borrow only from onshore banks while non-residents are only allowed to use offshore banks. Exceptions may be made only with CBB's explicit approval. The two systems are viewed as separate by the CBB that has established currency controls to limit the comingling of foreign assets with the domestic system in order to prevent disruptions of the local economy (and to support the currency peg)

²³ Section 22 of the IBA, chapter 267, 2011 and subsequent Amendment, No. 49 of 2017.

²⁴ Moneylenders are not included in the information provided.

that could be caused by variations in the intensity or direction of the flows of foreign capital into or out of the country.

The bulk of credit of the domestic banking system is directed to private firms. Banks provide a negligible amount of direct credit to the public sector as shown in Table 5. Nonetheless, banks do finance public sector activities by investing in government paper. However, the holdings of government paper of the banking system amounts to less than 10% of total bank credit, not “crowding out” financing to the private sector.

	2014	2015	2016	2017
Loans and Advances	1,933.0	1,985.7	2,015.0	2,018.2
Credit Public Sector	17.5	10.7	8.4	6.7
Credit Private Sector	1,915.5	1,979.2	2,010.9	2,017.5

Source: CBB

Financial System Supervision

The Central Bank is the institution in charge of overseeing the functioning of banks and financial institutions. The CBB’s broad oversight powers are specified in the Domestic Banks and Financial Institutions Act (DBFIA) with respect to banks and financial institutions and in the International Banking Act for offshore financial institutions. CBB supervision is done through the Supervision Department whose responsibility is to ensure that all banks and financial institutions are operating in a prudent, safe and sound manner. In addition, the CBB may issue circulars describing prudential requirements and standards.

Domestic banks are required to publish their annual financial statements in a Belizean newspaper. International banks must have annual financial statements readily available on-site. Banks are required to submit loan delinquency information to the CBB semi-annually.

Belize’s financial system does not have a developed capital market. This situation limits the access of firms to equity capital forcing them to take on debt to finance their growth. The limited competition in Belize’s financial system explains the high cost of credit and bank spreads (at around 8 percentage points on an annual basis). Banking spreads have remained between 8 and 9% at least during the past ten years.

	2010	2014	2015	2016	2017
Average Lending Rates	13.8	10.7	10.0	9.7	9.3
Average Deposit rate	5.6	1.7	1.5	1.3	1.2
Average Spreads	8.2	8.9	8.6	8.4	8.1

Source: CBB

Belize’s financial system is quite fragile, although banks’ balance sheets are slowly improving with declining NPLs and increasing provisioning. The stock of NPLs fell from

12.0% of total loans at end- 2016 (3.6% net of provisions) to around 7.2% by December 2017. These levels are still quite high by international standards and provisions are deemed to be too low. Reported capital buffers have also improved, because of new capital injections, but remain low considering the various risks they face. The financial system is large relative to the size of the economy. Its assets at end-2017 amounted to 151% of GDP, of which 115% of GDP represented the banking system's assets. Domestic banks' assets at end 2017 amounted to 85.6% of GDP and international (offshore) banks to 39.4% of GDP. Credit unions also play an important role, with assets equivalent to 25.3% of GDP at end-2017.

According to the IMF, the major challenges to the stability of the financial system are:

- (i) the threat of distress in the banking system, still facing high levels of NPLs, with low levels of provisions and low capital buffers in various banks;
- (ii) the reduced financial services provided by global/regional banks due to loss of Correspondent Banking Relationships (CBR) in 2015 and 2016 because of perceived weak platforms to control Anti-Money Laundering - Combating the Financing of Terrorism (AML/CFT) by the banking sector as a whole;²⁵
- (iii) macroeconomic vulnerabilities due to high debt levels and continued fiscal imbalances that imply further increases in gross financing requirements; and
- (iv) the lack of complete information on the magnitude of connected lending and large exposures in the banking system.

In its recent report, the IMF recommended maintaining the financial system under tight supervision, strengthening loan provision regulations, carrying an assessment of asset quality to determine the appropriateness of capital buffers, and strengthening the capacity of the CBB to conduct AML/CFT risk-based supervision of banks.²⁶

As stated in its CPF for Belize, the WBG has agreed to support Belize in strengthening regulatory standards and enhancing enforcement and transparency aimed at improving the access of the country to CBRs. The WBG is supporting Belize in conducting a national risk self-assessment and will explore opportunities to provide additional support to the GOB to improve the AML/CFT framework. The CPF will retain flexibility for potential further collaboration on strengthening financial sector stability, regulation, supervision and transparency, in line with international requirements.

In addition, the CBB with the assistance of international organizations, as the WBG, has been working to improve the country's financial infrastructure. One particular concern was the fragility of the payments system. In the last quarter of 2016, a major milestone was achieved in the project to improve Belize's payments infrastructure with the CBB's of the Automated Payments and Securities Settlement System (APSSS), which is comprised of an automated clearing house, real time gross settlements system and CSD.²⁷ In the last quarter of 2016, the CBB, in collaboration with Central Government and local financial institutions, operationalized the APSSS. Prior to the implementation of the APSSS, the payment system in the country was inefficient, costly, and transactions took several days to settle. The new

²⁵ The CBR situation has improved somewhat in recent times but still affects transaction costs and loan processing times.

²⁶ IMF (2018 and 2018a)

²⁷ Financial Stability Report 2015-2016, CBB

system links financial institutions and facilitates payments and securities settlements (more details are provided afterwards, particularly on the CDS).

The recent IMF Article IV Consultations Report highlighted the need for improving certain regulations of the banking system, including provisioning requirements and strengthening the authorities' bank resolution legal framework based on international best practice (including more effective bank-resolution tools that the CBB could deploy at an early juncture with greater operational autonomy). The IMF also suggested that the authorities could conduct a Financial Sector Stability Review (FSSR) to help identify financial sector vulnerabilities, and to formulate and implement financial sector reform programs, supported by follow-up technical assistance. This technical assistance could come from institutions such as the IDB and the WBG.

III. Current Development of the Local Capital Markets

A. Overview and Legal Framework

Belize has a very underdeveloped securities market. The country basically has a primary market for government securities and there have been very few placements of private sector issues. There is no secondary market of public or private debt. The country lacks a Capital Markets Act or a Capital Market Regulator and, as a result, it lacks a legal regulatory framework for the development of a proper capital market. The government is aware of the need to introduce legal changes to provide an appropriate framework for market development and is planning to develop it after completion of this consultancy report.

The laws of Belize allow for various categories of business ownership. The relevant legislation for the various types of companies are:

- (i) Private company – Chapter 250, Companies Act;
- (ii) Joint venture and co-operative – Chapter 313, Co-operative Societies Act;
- (iii) Partnerships: general and limited – Chapter 258, Limited Liability Partnership Act;
- (iv) Sole proprietor – Chapter 247, Business Names Act;
- (v) International business company – Chapter 270, International Business Companies Act;
- (vi) Trust fund – Chapter 200, Trust Corporations Act; and
- (vii) Public investment company – Chapter 250, Companies Act.

The Companies Act is the main law regulating the functioning of Private Sector companies in Belize. This Act is considered obsolete, and it lacks a full treatment of matters such as insider trading, protection of minority shareholders, prospectus requirements for new issues and information disclosure in general, among others. There is no government agency in charge of overseeing the securities market and no regulations for licencing brokers or brokerage houses. The structures for doing business in Belize require local representation by a licensed attorney in Belize. The Companies Act is the law that governs the issue of prospectus by companies seeking to raise money from the public. The Act is quite basic and does not require the issuing company to provide adequate information to potential investors.

Private Limited Company

There is no requirement to have a national or resident of Belize as a participant, manager, or director of this type of company. The company is required to pay annual registered agent fees and to have annual returns for the company prepared by the attorney for filing at the Companies Registry.

International Business Company

Private persons, corporate entities and trusts may become shareholders of this type of company. A minimum capital may be expressed in a foreign currency. Bearer shares and shares of no par value may be issued. At least one director, a private person or a corporate entity, must be appointed. A company must have registered agent and a registered office in Belize all times. There are no auditing and accounts filing requirements. The company is exempt from taxes.

An international business company may not: (i) carry on a business activity with residents of Belize, (ii) own a property in Belize, and (iii) conduct banking, insurance and corporate service provider's activities.

Trusts

These type of vehicles are permitted in Belize. Trusts are mainly used for asset protection purposes. They are not required to be registered. They often establish an international business company which is used as an asset-holding entity and introduce a higher level of confidentiality and protection.

Auditing and Accounting

Domestic companies are required to keep accounts that include the assets and liabilities of the company, and the amounts of money spent and received by the company and the nature of the transactions. The directors are required to prepare an annual balance sheet and profit and loss account and present these to the annual general meeting.

International business companies are required to keep accounts and records reflecting the financial position of the company if this is deemed necessary or desirable by the director(s). Limited liability partnerships are required to keep accounting records which disclose with reasonable accuracy the financial position of the partnership and are sufficient enough to show and explain its transactions. A limited liability partnership is not required to appoint an auditor or have its accounts audited.

Belize does not have a domestic stock exchange. However, the Belize Domestic Bank and Financial Institutions Act requires that financial statements and accounting records of banks and financial institutions must be prepared and maintained in accordance with International Financial Reporting Standards (IFRS). Moreover, the Institute of Chartered Accountants of Belize allows all domestic companies to use IFRSs as the basis for preparing their financial statements, or they may choose other internationally accepted standards (particularly US GAAP or Canadian GAAP). As a result, most financial statements are generally prepared in accordance with the IFRS.

Companies and other entities are required to keep their accounting records for a period of at least five years. Accounting records relating to suspicious transactions or a continuing investigation must be kept for longer than five years or up to the end of the investigation. Records and books of accounts required for assessing tax must be kept for a period of at least six years (the Commissioner of Income Tax may provide written permission for earlier disposal).

While Belize has formally adopted international standards of accounting and auditing, its application is inconsistent and depends on the quality of the accounting or auditing firm involved. The Belize Institute of Chartered Accountants does not have effective enforcement powers to sanction wrongdoing by its members.

Filing Requirements

Companies that are licensed (or required to be licensed) as a bank or financial institution under the Domestic Banks and Financial Institutions Act, and financial holding companies, are required to file their financial statements and certain other statements with the CBB when requested to do so.

Companies that are licensed (or required to be licensed) as a bank or financial institution under the Domestic Banks and Financial Institutions Act are required to file certain documentation, including the company's audited unconsolidated financial statements and the full auditor's report, with the CBB within four months of the end of the financial year (an extended filing deadline may be provided in writing by the CBB. Such companies are also required to publish copies of their audited unconsolidated financial statements and certification or opinion of the auditor in the Gazette and in a national newspaper.

Financial holding companies are required to file certain documentation, including the company's audited consolidated financial statements and the full auditor's report, with the CBB within four months of the end of the financial year (an extended filing deadline may be provided in writing by the CBB.

Overseas companies are required to file a balance sheet with the Registrar of Companies each calendar year.

Insurance Companies and Pension Funds have to file their financial information with the Office of Insurance Regulation.

For other companies, there are no requirements to file accounts of financial statements. Every type of company is to file with the Belize Companies Registry an annual return (company with share capital) or an annual list of board of directors (company without share capital). They seldom do.

Rules for Foreign Portfolio Investments in Belize and Exchange Controls

The Exchange Control Act and Regulations and the Exchange Control Regulations Act outline the regulatory framework governing transactions that generate foreign exchange inflows and outflows from Belize.

The Exchange Control Regulations Act, Revised Edition 2011, includes amendments to the Act that were in force as at 31 December 2011. The Act bestows powers on the Minister to make exchange control regulations, to exempt any person or body from its provisions and to appoint a controller, formerly called a competent authority. It also sets out penalties for violations of the regulations made under the Act.

The Exchange Control Regulations 2003 govern dealings in gold and foreign currency. The regulations also address the treatment of financial transactions between residents and non-residents involving exports and imports, the purchase, sale and transfer of property and securities, and the borrowing and lending of funds. Miscellaneous matters, such as methods of enforcement and the powers of the controller, are also included. Central Bank permission is required to carry out a series of transactions involving inflows or outflows of foreign exchange in Belize, including those related to the issuance, transfer or payments of coupons or dividends of securities, among others.

Thus, there are strong currency controls in Belize. Foreign investments may be registered at the CBB in order to facilitate inflows and outflows of foreign currency during transactions, including transfers, and repatriation of profits and dividends. In order to pay for goods and services procured outside of Belize in a foreign currency, a Foreign Exchange Permit must be obtained from the CBB. Sub Agents (commercial banks, money transfer institutions, the Ministry of Finance) are able to approve permits for applications not exceeding US\$500. After securing the permit, foreigners and locals are allowed to access foreign exchange directly from commercial banks. Limits vary and depend on the authorized dealer and the transaction type. With respect to payments for imports, commercial banks can approve any amount up to three months from date of custom entry.

Approval from the CBB is also necessary for business people or firms wishing to secure loans that involve foreign currency from outside of Belize. It is also important to note that occasionally there are shortages of foreign currency in the banking system, which can result in payment delays for international transfers and transactions. Officially, no one other than an authorized dealer and depository, may retain in their possession any foreign currency without the consent of the CBB, although in practice, U.S. dollars are widely used and accepted.

AML/CFT legislation requires reporting entities (as defined) to establish and verify the identity of their customers and to report suspicious transactions to the Financial Intelligence Unit (FIU).

Foreign portfolio investments in Belize such as bank deposits, mutual funds, bonds and other financial securities require the approval of the CBB. There are generally no restrictions on foreigners opening bank accounts in Belize (certain documentation and minimum deposit may be required). Foreign currency accounts are permitted in certain circumstances (particularly for export earners or foreign investors).

Under the Exchange Control Regulations, only the CBB, authorized dealers and authorized depositories may deal in foreign currency. A foreign exchange permit must first be obtained from the CBB for all remittances of foreign exchange, including the payment of goods and

services procured outside Belize. CBB approval is also required to secure and repay a loan outside Belize denominated in a foreign currency or to transfer abroad the proceeds of dividend payments or sale of domestic investments.

Generally, Belize has no restrictions on foreign ownership and control of companies; however, there is a requirement that foreign investors obtain prior clearance from the CBB in order to own shares in a Belizean company. There are some investment incentives which show preference to Belizean-owned companies. For example, the SME Fiscal Incentive, offered by BELTRAIDE, stipulates that an entity applying for benefits under the SME incentive must have a minimum of 51% Belizean ownership. If this condition is met, the incentive provides for a lower application fee structure.

Individual Taxation

Residents of Belize are liable to pay income tax on their global income. Non-residents pay income tax in Belize solely on income derived from activities conducted within the jurisdiction. Income tax is levied at the rate of 25%.

Effective 1 January 2010, employed persons, resident in Belize, are allowed a basic deduction of:

- (a) BZ\$ 25,600 in the case of an employed person whose total income, from all sources in a basis year, does not exceed BZ\$ 26,000;
- (b) BZ\$ 24,600 in the case of an employed person whose total income, from all sources in a basis year, exceeds BZ\$ 26,000 but does not exceed BZ\$ 27,000;
- (c) BZ\$ 22,600 in the case of an employed person whose total income, from all sources in a basis year, exceeds BZ\$ 27,000 but does not exceed BZ\$ 29,000; and,
- (d) BZ\$ 19,600 in the case of all other employed persons. There are no other deductions in ascertaining chargeable income except for allowable charitable donations which is restricted to one-sixth part of the chargeable income.

There are no capital gains, gift, or inheritance taxes in Belize.

Company Tax

Businesses in Belize are liable to pay business tax on gross revenue at rates ranging from 1.75% to 25%. On 1 July 1998, income tax on the profits or net earnings of companies and self-employed persons was replaced by a new tax, named 'business tax', which is a tax on gross receipts. The tax is charged as a percentage of gross receipts, without any deductions, and is declared and paid each month to the Tax Department. The rates vary according to the source of the income and range from 0.75% in respect of receipts from radio, on-air television and newspaper business to 25% in respect of management fees, rental of plant and equipment, and charges for technical services paid to a non-resident.

Effective 1 January 1999, income tax on business profits was reintroduced but revised so that it could co-exist with the business tax regime introduced in 1998. The corporate income tax rate was reduced from its former level of 35% to 25%. The business tax paid is now considered to be a credit towards income tax payable with any excess paid being carried forward as an expense to the next basis (tax) year, provided that an income tax return is duly filed with the Commissioner of Income Tax.

There is no need to provide financial statements or any additional supporting schedules to support the tax return submitted. Where losses are incurred and the taxpayer elects not to accept the business tax as a final tax, the taxpayer must submit a complete tax return which would include an income tax computation, financial statements and supporting schedules in order to have the trading losses agreed and relief obtained in the form of tax credits against future business taxes payable.

With effect from 1 January 2006, the rate of income tax for companies engaged in petroleum operations was increased from 25% to 40%. These companies must file income tax returns and pay income tax; they cannot elect to be chargeable to tax under the business tax regime.

Other taxes a company may have to pay include: (i) 15% business tax on all dividends and (ii) Property tax.

An understanding of Company Taxation, and of taxation in general, is important because if taxes are high, or distortive, they can hinder the growth of the capital markets or of certain types of financing. Furthermore, in some cases certain taxes could be reduced or eliminated in order to foster the development of certain capital market instruments.

Taxes on Financial Instruments

As in many countries, corporate equities are subject to a double taxation, as companies are subject to a corporate business tax and shareholders have to pay income tax on distributed dividends. Foreign investors have a withholding tax of 15% on dividends or interest income from bank deposits or other debt instruments. Local investors have to pay tax on interest income from local paper, unless exempted by the Ministry of Finance, and they also have to report interest received from deposits for income tax purposes. For instance, due to the Municipal Bonds Act that was enacted specifically to facilitate bond issues by Belize City and Belmopan Municipalities, their bonds are exempt from taxes on interest income (for all types of investors, including non-resident). There is some preferential treatment to CARICOM entities that are exempt of double taxation and to the dividends received from companies providing voice services which are exempt from taxes, such as BTL.

There is no capital gains tax in Belize, but there is a 5% Stamp Duty on Transfer of Shares and 1.5% on Transfer of Bonds. There is no Stamp Duty on the sale of government securities or on interest income derived from them. The Stamp Duty on transfers of private securities hinders the development of a secondary market for financial instruments.

Withholding taxes

- (i) 15% on dividends paid to non-residents - Effective January 1st 2011, dividends paid to shareholders by entities licensed to provide telecommunication services that offer real time voice services are exempt from tax;
- (ii) 3% on gross contract payments in connection with contracts exceeding BZ\$ 3,000;
- (iii) 15% on interest paid to non-residents; and
- (iv) 25% on management fees, rental of plant and equipment and charges for technical services paid to non-residents.

Belize has double taxation agreements with the United Kingdom, Austria, and the countries of the CARICOM. Tax information agreements have been signed with Mexico, Poland and South Africa.

Expropriation and Compensation

One major problem in Belize that could affect the development of a securities market, is related to the handling by recent governments of situations of expropriation of private property and compensation. There have been several cases in which the GOB, under its right of eminent domain, appropriated land that was private property, including land belonging to foreign investors. Belizean law requires that the GOB assess and compensate according to fair market value. These types of cases can take many years to settle and there are numerous complaints for unfair or pending compensation. The land titling system is weak with many unresolved cases of private, as well as, the GOB manipulation of titles. As a result, the WBG is assisting the GOB to improve its land titling system.

Starting in 2008, the GOB engaged in the nationalization of the major telecommunications and electricity companies, which when combined with legislation on arbitration resulted in a decrease in the flow of foreign direct investment. The GOB first nationalized the major telecommunications company, BTL, in 2009 and renationalized it in 2011 after the first nationalization was declared void by the Belize Court of Appeals. The GOB has since been hauled before multiple courts in cases directly and indirectly related to this company. Judgments have been issued by the Caribbean Court of Justice (CCJ), the London Court of Arbitration, the Permanent Court of Arbitration and the U.S. district and circuit courts. In late 2015, GOB agreed to a compensation package with the former owners of BTL. Under the package, the GOB agreed to make a partial payment of US \$80 million, with further compensation to be determined by the Permanent Court of Arbitration in The Hague.

Also in 2011, BEL, the country's only electricity provider, was similarly nationalized. In 2011, Fortis, a Canada-based company and previous majority shareholder in BEL, was having cash flow problems and had requested a rate increase from the Belize Public Utilities Commission (PUC). When the PUC refused, the company issued an ultimatum that it would be forced to institute blackouts, if it did not get the rate increase. The GOB responded by passing legislation to allow government to take over Fortis' 70% shareholding and assume management of the utility. The government also passed special legislation that year to amend Belize's Constitution, giving the GOB majority ownership of utility providers (including water, electricity, and telecommunications). Following a round of litigation which culminated at the Caribbean Court of Justice, the GOB came to an agreement in 2015 with Belize Electric Co Ltd (BECOL) and Fortis, as former owners of BEL. The compensation package included a payment to BECOL/Fortis of U.S. \$35 million and a 33.3% share in BEL. The GOB and BSSB maintain a 36.9% and 26.9% stake in the company, respectively, with the remaining shares held by just over 1,500 small shareholders.

In 2013, the GOB assumed management of the International Business Companies Registry and the International Merchant Marine Registry of Belize (IMMARBE). The GOB is still embroiled in litigation with the former owners who contend that they are entitled to compensation. However, the GOB contends that it owes nothing as IMMARBE's operations contravened local laws.

Summary of Belize Rankings in the World Bank Doing Business 2019

Belize ranks 125 overall in the Doing Business 2019 rankings that included 190 countries. The following set of indicators were selected considering their relevance to firms interested in funding through capital markets or to investors that could be interested in acquiring domestic securities: (i) registering property transfers, (ii) protecting legal rights, (iii) protecting minority investors, (iv) enforcing contracts, and (v) resolving insolvency.

There is room for improvement in several areas, notably in starting a business, getting credit, protecting investors, trading across borders and enforcing contracts. The WBG's governance indicators also reveal some deterioration in the efficiency of the court system and in the quality of public services. Legislative improvements in these areas could be implemented without significant financial costs and are critical for the development of a domestic capital market. Reducing the cost of doing business, including cost of inputs, could help attract private investment and expand key export-oriented sectors. Access to affordable credit for farmers and SMEs could be enhanced by establishing a credit bureau and a credit/collateral registry. Contract enforcement could be further strengthened by measures that improve the efficiency of the court system.

Improvements in all of these indicators would foster the development of the domestic capital market. In terms of importance for capital market development, high priority should be placed in: (i) getting credit and protecting legal rights, (ii) protecting minority shareholders, (iii) enforcing contracts, and (iv) registering property transfers.

Indicator	Distance to The Frontier	Ranking based on 190 countries
Registering Property Transfers	52.4	135
Getting Credit and Protecting Legal Rights	20.0	172
Protecting Minority Shareholders	43.3	132
Enforcing Contracts	50.1	133
Resolving Insolvency	45.9	87
Overall Country Position	57.1	125

Source: World Bank Group

Registering Property

This indicator examines the steps, time and cost involved in registering property, assuming a standardized case of an entrepreneur who wants to purchase land and a building that is already registered and free of title dispute. Belize ranks 133 of 190 countries due to number of procedures (9), time taken (60 days), and cost (4.8% of property value).

Strength of Legal Rights

This topic explores two sets of issues—the strength of credit reporting systems and the effectiveness of collateral and bankruptcy laws in facilitating lending. Belize ranks very poorly in terms of this indicator (172 of 190 countries). The main reasons for this poor ranking relates to low depth of credit information and to the lack of a credit bureau and of a collateral registry. In addition, there are major problems related to payment of debts in a situation of debtor insolvency.

Protecting Minority Investors

This indicator measures the strength of minority shareholder protections against misuse of corporate assets by directors for their personal gains, as well as, shareholders rights, governance safeguards and corporate transparency requirements. Belize ranks 133 of 190 countries. There are major problems in terms of conflict of interest regulation, control of powers of directors, limits to extent of ownership and control, and corporate transparency (very low).

Enforcing Contracts

The enforcing contracts indicator measures the time and cost for resolving a commercial dispute through a local first-instance court and the quality of the overall judicial process. Belize ranks 133 of 190 countries. The time taken to enforce contracts in Belize is 892 days at an average cost of 27.5% of the claim for the enforcements of contracts in national courts. If judgments are appealed to the CCJ, Belize's highest appellate court, judgments would likely exceed this time period.

Resolving Insolvency

This indicator measures the time, cost and outcome of insolvency proceedings involving domestic legal entities. Belize ranks 83 of 190 countries. A receivership proceeding until the creditor is repaid all or part of the money owed takes at least two years and has a cost of 22.5%. The recovery rate is around 56.3 cents of the dollar. The insolvency procedure does not have a good framework to commence operations, to manage debtor's assets, to involve creditors in the reorganization proceedings, among other deficiencies.

Transparency of the Regulatory System

GOB regulations and laws are published in the Gazette by the Government of Belize Printers and it is publicly available for a minimal fee. Government Ministries generally make available policies, laws and regulations pertinent to their portfolio available on their respective Ministry websites. Investors indicate that there are important hindrances to doing business in Belize, including a land titling system - not always reliable and secure, bureaucratic delays and corruption.

The government publishes a Gazette that includes proposed laws which are open to public comment. Standing Committees of the House of Representatives then meet and invite the public and interested persons to review, recommend changes, or object to draft laws prior to being debated. However, sometimes laws are passed quickly without meaningful publication or public review, as was the case with the Supreme Court of Judicature (Amendment) Act (see Section 4.). There are quasi-governmental organizations that manage regulatory

processes on behalf of the GOB, e.g. the Belize Tourism Board (BTB), BELTRAIDE, and the Belize Agricultural Health Authority (BAHA). There are no reports that these processes significantly distort or discriminate against foreign investors.

B. Market Infrastructure

Automated Payment and Securities Settlement System (APSSS)

The CBB engaged in a reform project to implement an APSSS with the assistance of several international organizations. After several years of design and implementation, the new payment system started functioning in 2016, and the cheque processing service component was launched in 2017. The NPS reform comprises nine development pillars, of which seven have been implemented, including the four pillars of the APSSS:

- (i) a Real Time Gross Settlement System (RTGSS) to process high value payments;
- (ii) an Automated Clearing House (ACH) to process low value payments;
- (iii) the integration of government payment and collection mechanisms to improve efficiency and convenience; and
- (iv) a Central Securities Depository System (CSDS) to manage primary market activities.

The APSSS connects financial institutions in a local private and secure network and allows them to operate using technologically advanced features and securities.

The CSD is one of three integrated modules of the Automated Clearing and Settlement System (ACSS) supplied by Montran Corporation of New York, USA. The other two modules are the RTGS system and the ACH.

The CSD allows and facilitates the operations and processes detailed below:

- Full management of Primary Market Activities for various types of financial instruments (in Belize's case Treasury Bills (T-Bills), Fixed Rate T-Notes and Floating Rate Notes (FRNs));
- An online centralized electronic registry for dematerialized fixed income securities;
- Efficiency by implementing Delivery versus Payment (DVP) and Straight-Through Processing (STP);
- The electronic processing of Secondary Market transactions;
- Automatically calculating and executing interest and coupon payment events and early, partial or total redemption;
- Participants' access to Intraday Liquidity Management facilities with a real-time interface with the ATS.

The CSD is a component of the APSSS, which includes the RTGS, CSDS and the ACH. The securities in the CSD are GOB issued debt in BZ dollars (including 91 and 180 Day Treasury Bills, 1, 2, 5, 7 and 10 Year Treasury Notes and inflation indexed FRNs). No municipals, corporates or any other private sector security is included.

The CSD is configured to the specifications of the customer. There are other configurations or add-ons a customer can purchase from the provider. The CSD that the CBB procured from

the supplier did not include the possibility of handling private debt and equity, because it was not a solicited specification. The CSD could be used as a venue to facilitate registry and settlement of securities other than government paper, but the CBB would need to purchase a special module from Montran Corp. In addition it would be required to make legal and regulatory changes because the country lacks securities legislation which may be a precondition for the CSD and the CBB to be involved in the handling of those securities. It is not clear whether the CBB wants to promote this as a policy matter. This is a critical decision that has to be made as part of the design of a master plan for the development of the capital market.

In its current configuration, the CSD facilitates the issuance of the bills and notes in the primary markets. In secondary trading, the CSD facilitates the transfer and re-registration of securities; the cash leg is usually settled between the parties outside the CSD. The CSD is not a trading platform. The suppliers of the CSD, Montran Corporation procure a separate platform designed to facilitate secondary trading which has not been acquired by the CBB.

Only domestic commercial banks have direct access to the CSD and also have access to their own accounts. All other investors (institutional or retail) can only access the CSD via the CBB, the intermediary. The CBB holds its own account and client accounts. The five commercial banks licensed in Belize are linked directly to the CSD (electronically). DvP transactions are settled in real time. Free of Payment (FOP) securities transactions are settled in real time or may be deferred and settled before cutoff (at 4:20 pm on business days).

The process works as follows:

- (i) an auction is created;
- (ii) bidders submit during the hours of 10:00 am and 1:00 pm;
- (iii) direct participants' (banks) accounts at the CBB are charged in cases where their bids are successful;
- (iv) Indirect participants (credit unions, insurance companies, pensions, retail) submit their bids to the CBB and arrange to make payment through their commercial banks (cash leg) before the auction closes. Successful bidders are registered and securities electronically held in the CSD at the CBB.

In addition, the APSSS was launched in October 2016, which will facilitate electronic payments, facilitate electronic auction and registration of government paper, and improve the ease of doing business in Belize more generally. Accompanying legislation for the national payments system was passed by the National Assembly in February 2017. To date, there are no stipulations as to which entities can participate in the CSD. Currently, only commercial banks participate in the CSD.

C. The Market for Government Securities

The GOB securities market has two segments – short-term T-Bills (money market) and medium-term T-Notes (capital market). GOB securities are placed on the market by the CBB, which performs the intermediary role. T-Bills are sold via monthly competitive auctions and T-Notes are made available via competitive and non-competitive auctioning. The CBB also trades in these securities on its own account. Participants in the securities

markets include domestic commercial banks, credit unions, insurance companies, the BSSB and some retail investors. There are no private dealers/brokers operating in the market. Investors usually buy and hold their securities to maturity (the long-positions).

The T-Bill market is dominated by commercial banks who use it as a place for excess liquidity, while the banks' participation in the T-Note market is not as significant. T-Bills are liquid and may be surrendered to the CBB at any time prior to maturity. On the other hand, secondary trading in the T-Note market is virtually non-existent. Investors who wish to liquidate their positions must identify an interested buyer, or the CBB will repurchase the notes in the case of small holdings.

The Belizean government is by far the largest debt issuer in the local market. It issues T-Bills, T-Notes and FRNs. The T-Bills are issued at 3 month and 6 month maturities, T-Notes are issued at 1, 2, 5, 7 and 10 year maturities. FRNs were first issued in 2017 and they are issued with 2, 5, 7 and 10 year maturities. The Government is prohibited by law from issuing paper longer than ten year maturity. Under the current law, a total of BZ\$400 million T-Bills is authorized and BZ\$1 billion in T-Notes. As of September 2018, the total issue of Fixed notes issued amount to BZ\$481 million while FRNs amount to BZ\$159 million for a total of BZ\$640 million issued in all types of Notes and BZ\$245 million in Bills. The headroom available for issuing more paper is BZ\$155m in Bills and BZ\$360 million in Notes for a total of BZ\$515M in the two types of securities.

Thus, the GOB has a large debt issued locally in Belize dollars amounting to BZ\$885 million, as of September 2018. The main holders of the debt are commercial banks (38.3%), followed by the CBB with 34.2%. Other institutional investors, but with smaller positions, are the BSSB (8.5%), Insurance Companies (6.9%), Credit Unions (4.8%) and Pension Funds (2.9%). The general public holds the remaining 4.4%.

The CBB is an important player in the primary market of government securities, not only because it acts as the administrator and registrar of the various issues, but also because it holds a significant portion of the portfolio. The Government is by far the major borrower in the Belize capital market, a situation that is unlikely to change in the short run due to its continued financing requirements and the various disincentives to private debt issues.

More than one-third of domestic public debt is held by the CBB. Financing government spending from the CBB brings excessive liquidity into the market, which, if not sterilized, can put pressure on the exchange rate. As mentioned in the latest Article 4 Report of the IMF, the government financing by the CBB should be phased out and replaced by financing using securities market. Proactive debt management and more regular auctions of government paper would activate the domestic securities markets and could over time generate savings on interest payments over time by developing a more competitive and active market for government paper.

Table 8: Government Securities (September 2018)					
Holder	T-Bills	T-Notes	FRNs	Total	
	BZ\$ million	BZ\$ million	BZ\$ million	BZ\$ million	In %
Central Bank	56.7	246.3	0.008	303.0	34.2
Domestic Banks	187.1	75.6	76.0	338.7	38.3
Credit Unions	0.2	12.6	30.0	42.8	4.8
Insurance Cos.	1.0	55.8	3.9	60.7	6.9
Pension Funds	0	17.7	8.3	26.0	2.9
SSB	0	41.4	34.0	75.4	8.5
Others	0	31.7	6.8	38.5	4.4
TOTAL	245.0	481.0	159.0	885.0	100.0

Source: CBB

Trading in Government T-Bills and Notes is conducted under the aegis of the CBB which is the only market-maker in case somebody wants to trade in the secondary market (a very rare situation since most buyers operate on a buy and hold mode because of the lack of investment opportunities in the market rather than bank deposits at negligible rates).

The development of the government debt market plays a pivotal and precursory in the development of capital markets by providing a benchmark yield which helps to facilitate risk-based pricing in the wider economy. Currently, the only active securities market segment in Belize is the market for short-term government debt (91 day T-Bills). Commercial banks provide a captive market for short-term government debt as there are no domestic currency alternatives that meet their liquidity management requirements. T-Notes (government debt with a maturity greater than or equal to one year) are currently privately placed and the interest rates are not market determined. The rates of interest paid on T-notes are as follows; one year 2.25%, two year 3.0%, five year 4.0% and 10 year 5.25%.

There is not a real market for government securities, with prices set up by the CBB at a very low rate that only interest banks as an alternative to park their excess liquidity. Thus, traditionally banks have used government securities as a means to invest their excess liquidity. CBB officials indicated that prices for both T-Bills and T-Notes are market driven. The CBB is obliged to subscribe any bills not taken by the banks and as a result it holds an important proportion of paper. A secondary market of government debt has not developed for a series of reasons, including the need for supporting legislation. Thus, when a bank or investor needs liquidity, it is faced with having to sell the instrument to the CBB, although in theory it could also sell to other interested market participants, but the lack of market determined rates limits this option.

Efforts should be made to develop the government domestic debt market to take advantage of the liquidity and interest rate environment and associated interest cost savings. This could serve as a catalyst for further market development and provide much needed benchmark rates through the development of a domestic currency sovereign yield curve. Indeed, there are additional requirements for full development of a domestic bond market, but the deepening of the sovereign domestic debt market is a simple step that can go a long way towards spurring broader capital market development.

A real market has not been actively developed or encouraged. There is no real secondary market since there is no information on the prices at which the CBB is willing to buy or sell and there is no information on volumes of transactions or prices. Issue prices to date have not been really tested in a secondary market. CBB intervention and many institutional investors' propensity to hold securities to maturity have combined to prevent the emergence of such a secondary market. There is no information of operations transacted in the secondary market, if any. Impediments to market development could be the absence of enabling legislation that is, a strong legal framework, as well as, a shortage of information necessary to guide investment decisions. Secondary markets are important because they drive the prices of securities toward their actual value through various trades. Furthermore, the secondary markets create additional economic value by allowing more beneficial transactions to occur with the same original securities. Secondary market activity of various types of assets allows the setting of market prices and facilitates a more efficient allocation of funds.

D. Private Corporate Securities and Commercial Paper

Private sector debt securities generally include short-term debt instruments, such as commercial paper, and longer-term debt securities, such as private sector bonds (with maturity of one year or more).

The market for private sector securities is quite underdeveloped in Belize. Utility companies have been the major issuers of both debt and equity securities. Recently, two municipalities issued a debt security. Instruments issued are generally held by initial purchasers (buy and hold) with very little, if any secondary, market activity. There have been very few issues of securities by the private sector in Belize in recent years. There is almost a complete absence of corporate bonds, debentures, convertible and other debt instruments, despite their potential attractiveness both to issuers and to investors (due to the low deposit rates and the high loan rates).

The number of offerings of Equity subscriptions to the public has been even smaller. There is no formal list of private debt or equity issues in the country, since there is no regulator or regulation, other than the Company Act. The following paragraphs will describe a selection of recent issues, based on information received in the personal interviews and on information collected from other publicly available sources. This is by no means a complete list of issues.

The few placements of bonds in Belize have been mainly issued by municipalities or by majority government-owned statutory companies. Most company bond issues floated in the market were reportedly oversubscribed. Some recent bond or debenture issues include:

- (i) The Belize City 2012 Municipal Bond;
- (ii) Belize Electricity Limited Series 5 Debentures (2012);
- (iii) The Saint Catherine Academy 2014 Mercy Bonds;
- (iv) The Corozal Free Zone Infrastructure Bonds 2016 (BZ\$1.3 million); and
- (v) The Belmopan City Council 2017 Municipal Bonds (BZ\$6.5 million).

The largest of these issues was the Belize City Council's Municipal Development Bond (MDB) that raised BZ\$20 million. The bond itself was broken down into three tranches with the first being for 3 million dollars for a period of 3 years, bearing an interest rate of 3.5%;

the second tranche for 7 million dollars for a period of 5 years with an interest rate of 5.5%. The third tranche was for 10 million dollars for 10 years at an interest rate of 8%. The bond was arranged this way because it was perceived that investors had varying needs: some wanted to stay for a full 10-year-term and wanted to get higher yields in interest, while others wanted shorter yields and yet, some were concerned with political risk and wanted their investment to mature within this political cycle. The city government used the proceeds from the bond to build over 100 streets in a country where only about 20% of streets are paved.

The BEL Series 5 Debentures (2012) for a total BZ\$25,000,000 in aggregate proceeds was offered exclusively in Belize. The proceeds were used in whole or in part to refinance the \$16.9 million Series 1 Debentures bearing interest at 12 per cent maturing on December 31, 2012, and/or to redeem existing Debentures held by holders who chose not to invest in the new offering and help to fund the Company's medium-term needs. The new debentures would mature on December 31, 2024 and carried an annual interest rate of 7%. The Supplemental Indenture provided the holder of a Debenture with the option to put his Debenture to the Company at any time after December 31, 2018, after giving 12 months written notice to the Company. The Company all got a right to call (redeem and cancel) such amounts of Debentures as it, in its sole discretion may determine, at any time after December 31, 2016, after giving not more than sixty days nor less than thirty days written notice to the registered holders of such Debentures. Series 5 Debentures called or redeemed in this way would be selected on a random basis

The BEL Series 6 Debentures (2014) was for a total of BZ\$25 million and as in the previous issue, the company would use the proceeds whole or in part to refinance the BZ\$24.8 million Series 3 Debentures bearing interest at 10 per cent, and or to redeem existing Debentures held by holders who chose not to invest in the new offering. The new Debentures would mature on December 31, 2030 and carry a 6.5% annual interest rate. The Supplemental Indenture provided for the right of the Company to call (redeem and cancel) such amounts of Debentures as it, in its sole discretion may determine, at any time after December 31, 2020, after giving not more than sixty days nor less than thirty days written notice to the registered holder(s) of such Debentures. Series 6 Debentures called or redeemed in this way will be selected on a random basis. The Debentures were unsecured and ranked pari passu with the Company's other long-term obligations. It also provided the holder of a Debenture with the option to put his Debenture to the Company at any time after December 31, 2022, after giving 12 months written notice to the Company.

This combination of calls and puts on the issues of the BEL Debentures provided comfort to both the issuer and the investors in case of fluctuations in interest rates that either of them was not willing to withstand.

The St. Catherine Academy bond issued on September 2014 raised BZ\$2.85 million. The proceeds were used to build a two-storey multipurpose center where it can host sporting and cultural events, apart from providing space for two new classrooms and a cafeteria for its 700 students. The bond was offered in three series: (i) Series I, \$500,000 in bonds spanning 10 years; (ii) Series II, \$1 million spanning 20 years, and (iii) Series III, \$1.35 million spanning

25 years. The rate of interest will span 4% to 6% per annum, with interest payments being made twice yearly.

The 2016 Corozal Free Zone bond allowed it to invest BZ\$2.5 million in infrastructure works. It includes the installation of storm water drains, sidewalks, parking areas, roundabouts, pedestrian ramps, complete resurfacing with hotmix of the main thoroughfare known as “Freedom Avenue”, traffic signs and traffic markings. It also includes drains to alleviate the water that settles in front of the Las Vegas Hotel and Casino.

Few private sector debt issues exist in Belize because:

- (i) potential issuing companies are family owned and are not interested in disclosing their financial information publicly;
- (ii) bank lending rates are high, but they offer much lower rates to their best clients, the potential issuers in a debt market, discouraging them from soliciting funds directly from investors;
- (iii) issuance costs can be high, particularly considering the small size of transactions (recent debt issues reportedly had transaction costs of 3 to 5% of the total issue);
- (iv) non-existence of an institutional and legal framework that protects investors, reduces potential buyers to just the institutional investors in the country; and
- (v) absence of a secondary market to sell the instruments, if an investor needs liquidity.

In addition to these fixed income issues, in 2006, FORTIS which at the time was the majority owner of BEL offered to existing shareholders 34,377,623 ordinary shares at the par value price of \$2.00 per ordinary share. Total proceeds were BZ\$68,755,246 in aggregate. In the event that any existing shareholder did not accept the offer for the purchase of the ordinary shares either in whole or in part that it was entitled to, then such ordinary shares were available for purchase by other existing interested shareholders.

Another equity issue was the offer in 2010 of up to 22,069,687 ordinary shares of BTL at a price of BZ\$5.00 per share, representing 44.5 percent of the issued share capital. The offer was made by the GOB as owner of the shares of the firm.

There is not a formal commercial paper market in Belize, although it is allowed by law. There is nothing to prohibit the issuance of commercial paper. Therefore companies borrow directly from third parties without the banks and this is effectively a form of commercial paper. They are not tradable, nor transferrable. The limitation to commercial paper is the same as for other non-bank instruments, it mainly is the lack of financial information to assess the business. Most businesses are family owned and they generally do not share information about their businesses.

A lot of the disintermediation or use of “commercial paper type” financing tends to be done among ethnic groups. The financial disclosure might not be a requirement among the ethnic groups which makes the practice of disintermediation more readily acceptable. Understandably, this is not captured in the system, so we have no idea of knowing the volume of activity in this area.

Companies have not found the need to issue commercial paper formally since there is excess liquidity in the banking system. In addition, the lack of a regulatory and institutional framework discourages the growth of a commercial paper market. On the other hand, issuance of commercial paper would require a procedure similar to that for longer-term debt, and similar costs, thus discouraging the issuance of short-term paper.

E. Institutional Investors

As mentioned earlier, Belize's financial system is dominated by banks. The main institutional investors in the country, other than banks, include the insurance companies, credit unions, the BSSB, and Pension Funds managed by companies for their employees or offered by insurance companies (until the recent issue of the Pension Fund Act in 2016).

Insurance Companies

There are ten Insurance Companies in the country (3 Life, 5 Non-life and 2 Composite). The industry has total assets of BZ\$290 million as of June 2018. Life companies have BZ\$187 million in assets, Non-life firms have BZ\$69 million and Composite companies have the remaining BZ\$34 million. There has been a significant shift in the composition of the industry's aggregate investments away from holdings with commercial banks in recent years, due to high bank liquidity and low deposit rates. The share of investments held in cash or with domestic banks dropped from 70.7% in 2014 to 47.0% in 2017, with the amount held as term deposits plunging by 16 percentage points (from 38.2% to 22.5%). While the share comprised of government securities rose from 3% to 30.2% and the percentage of company bonds declined from 17.3% to 3.9% in the same period.

Investments in cash, bank deposits and government securities accounted for 78% of total investments of insurance company in 2017. Secured loans (including mortgages) accounted for 15% of the total, and the remaining 7% was placed in other investments. The insufficiency of long-term (LT) company securities and excessive liquidity in the domestic banking system explain the shift in the portfolio composition and constitutes a significant market risk for the insurance companies. In particular, life insurance companies were faced with asset-liability mismatches due to declining rates on fixed deposits and the occasional refusal of banks to roll over their Certificates of Deposit (CDs). In this context, the development of the capital market is a necessity. The life insurance business in Belize defers from other countries because it is basically concentrated in policies with short-term (ST) maturities (such as Term policies). Due to investment restrictions, they do not offer deferred annuities or universal life type products. There exists a chicken or egg situation: insurance companies do not find long-term instruments to invest in and because of this they cannot offer long-term coverage to their clients.

Table 9: Insurance Sector Investment Mix (In BZ\$ million)						
	2012	2013	2014	2015	2016	2017
Cash on Hand & Savings	40.0	53.1	65.1	46.4	48.7	54.0
Term Deposits	90.0	80.1	76.4	73.4	45.5	48.2
Government Securities	4.8	5.1	5.9	53.3	60.6	64.8
Company Bonds, Debentures & Other	21.0	31.5	34.5	3.3	9.8	8.4
Secured Loans (Inc. Mortgages)	5.3	4.7	8.2	14.1	23.6	32.2
Real Estate	0.6	0.7	1.8	1.9	2.4	2.5
Shares	1.4	1.4	1.5	1.5	1.5	1.5
Equities (stock)	0.6	0.6	0.7	0.1	0.1	0.1
Investments Related Parties	7.3	4.8	3.4	2.0	0	0
Policy Loans	2.2	2.4	2.6	2.8	3.0	2.6
Other Investments	0	0	0	0	0	0
Total Loan & Investments	173.2	184.5	200.1	198.8	195.1	214.3

Source: Office of the Supervisor of Insurance

The Insurance Act requires domestic underwriters to establish statutory funds for each class of insurance business in order to assure solvency and partial protection against investment losses. It is stipulated that 80% of the fund must be held in local assets denominated in Belizean currency and that the statutory fund can only be applied for the settlement of contracts for domestic policy holders. The fund must include a statutory deposit equal to 15% of net premium income. Statutory fund holdings exceed requirements, but the industry has been experiencing problems in satisfying the requirement for liabilities at the longer end of the maturity spectrum due to the limited availability of domestic securities and low interest rates. Insurance companies are allowed to freely invest the excess funds over statutory reserves.

New commercial bonds and T-Notes were put on the market in 2016 that enabled life insurance companies to diversify their investment portfolio, although in some cases maturities were limited to 2 years instead of 5 to 10 years which would have been more ideal. Since 2007, the statutory funds have been mainly comprised of commercial bank CDs. While the share of the latter has declined in recent years, CDs continue to account for a sizeable portion of the statutory funds. Notably, the level of interconnectedness between domestic banks and insurers is high and the concentration risk is significant with one bank accounting for 60.5% of total fixed deposits held by insurance companies in 2016. This poses a risk for both the domestic banking sector as well as the insurance sector. Government Treasury notes comprise approximately 36.0% of the total fund with commercial bonds occupying third place. In order to diversify, insurance companies have been investing in mortgages and have also resorted to pledging real estate, though there are limitations on the quantity and period of time these can be held in the statutory funds. The low interest rates are a particular challenge for the life insurance sector since any growth in underwriting currently requires additional injections by the industry to maintain the statutory funds at the legally required level.

The Belize Social Social Security Board (BSSB)

The BSSB or the Board was established in 1981 by the Social Security Act (hereinafter referred to as “the Act”). The BSSB’s functions are regulated by the Act and by several Statutory Instruments. Of primary importance for the purposes of this report are Sections 28, 46 and 49 of the Act. Section 28 establishes the Social Security Fund (SSF or the Fund), the primary purpose of which is the payment of benefits to contributors. These Sections vest the Fund and the general “control and overall management” of the Fund in the BSSB. The SSF feeds itself from the contributors to the social security scheme, employed persons over the age of 14 years, in accordance with Sections of the Act. Weekly, social security contributions are calculated based on the employee’s salary and are split between the employer and employee. The employee pays between 1.5% and 3% of his wage into social security depending on their weekly salary, and the employer contributes the balance to make a total contribution of 8%.

Table 10: Investment Portfolio of Belize Social Security Board (In BZ\$ million)		
	2015	2016
Term Deposits in Banks (ST)	116.8	64.3
Total Treasury Notes	10.5	16.0
Total Short Term Investments	127.3	80.3
Investment in Associates	154.0	155.2
Municipal Bonds	7.8	7.8
Debentures	6.2	6.2
LT Treasury Notes	9.5	
Mortgages and Housing (net)	7.1	6.9
Private Sector Loans (net)	110.2	120.3
Shares	15.5	15.5
Term Deposits (LT)		35.8
Time Deposit Credit Union		2.1
Total Long Term Investments	148.9	202.0
Total Investments	430.2	437.5

Source: Financial Statements of the Belize Social Security Board

The SSF is the most significant institutional investor in the country, with total investments in excess of B\$437 million at end-2016. The bulk of these investments are in LT investments and in Investment in Associates (which are investments in which the BSSB has an important saying in the functioning of such companies). Investments in Associated amounted to B\$155.2 million at end-2016, composed of investments in ordinary shares of BEL (BZ 95.7 million) and of BTL (BZ\$59.5 million). Those two investments are by far the most significant investments of the BSSB. The SSF also has a large percentage of funds investment in deposits in the local banking system (BZ\$ 100 million as of end-2016 and BZ\$116.8 at the end of 2015). The reduction in bank deposits is due to the fact that banks have been discouraging additional deposits due to excess liquidity in the banking system.

SSF does not only have portfolio investments, but a large chunk of its investments are loans to private businesses. At end-2016, loans amounted to BZ\$123.4 million, with the largest loans having been granted to the DFC (BZ\$20 million), the Belize Airport Authority (BAA) (BZ\$16.5 million), and BWSL (BZ\$27.5 million).

Section 49 of the Act created a specific exception to the BSSB's general "control and overall management" of the SSF by establishing a Social Security Investment Committee (Investment Committee) and endowing that Committee with the power to give general or specific directions on the investments of the SSF which are surplus to current needs of BSSB. Neither the BSSB nor the SSF are regulated by an external body.

Pension Funds

Belize issued a Private Pension Act in 2016 and Statutory Instrument #2 of 2017 on Private Pensions Regulation. Prior to the passage of this Pension Act, privately administered pension plans were broadly regulated under the *Insurance Act, Cap 251*. The Act applies to the majority of pension plans that are established by an employer for persons employed in Belize or in respect where an employer is making contributions for his or her employees.²⁸

The Act provides for the establishment of a Supervisor of Pensions which falls under the administration of the recently renamed Office of the Supervisor of Insurance and Private Pension, formerly the Office of the Supervisor of Insurance. Thus, it already exists and it has recently assumed its new functions. The regulatory powers provided to the Supervisor of Pensions consists of:

- (i) issuing orders to ensure compliance with laws and regulations;
- (ii) ensuring that a regulated pension plan is being properly managed;
- (iii) suspending or cancelling the registration, or revoking the license of a pension plan;
- (iv) reorganizing or winding up a pension plan; or
- (v) exempting a pension plan from any statutory requirement or guideline, where the Supervisor deems it necessary.

Pension plans will have to be registered and monitored in accordance with the provision of the Act. In the case of pension plans established on or after January 1, 2017 an application for registration of the plan shall be made within sixty (60) days after the establishment of the pension plan. In the case of a pension plan that had been established prior to January 1, 2017, that pension plan is required to be registered with the Supervisor of Pensions no later than June 30, 2017, six (6) months after the commencement of the Act.

An application for registration of a pension plan shall be made by the administrator of the pension plan in a form approved by the Supervisor of Pensions and must be accompanied by the relevant documents as set out in the Act and the regulations.

²⁸ The Act does not apply to pension plans for Public Officers, School Teachers, Social Security Pensioners and the National Assembly Pension Plan, nor to the private pension plans for employees of Belize Electricity Limited, Belize Telemedia Limited and Belize Water Services Limited, which were established prior to the commencement date of the Act.

The Supervisor of Pensions shall only register a pension plan when he/she is satisfied that it will be administered by an administrator, defined as a person or body that administers a pension plan.

In accordance with the Act, the administrator should be either the employer participating in the pension plan; a board of trustees composed of representatives of the employer or employers participating in the pension plan and/or representatives of the members or former members of the pension plan; or any other person approved by the Supervisor. An administrator can also include an entity which by law, is vested with the responsibility for the administration of a pension plan or pension fund, or a financial institution licensed as an administrator under the Act.

An administrator of a pension plan must also submit an application for registration. In the case of an application from an entity which by law, is vested with the responsibility for the administration of a pension plan or pension fund, or a financial institution. The Supervisor of Pensions may also issue a license to an entity or financial institution to provide the role of administrator for a term of five (5) years, subject to the payment of an annual license fee.

The Act sets out other requirements for a financial institution which is to be licensed as an administrator. The administrator of a pension plan is required to ensure that the plan and the fund related to the plan are at all times administered in accordance with the written provisions of the approved plan and fund, the Act and the regulations.

The Act imposes certain obligations on administrators of pension plans including the responsibility for receiving contributions under the plan, ensuring that all benefits under the plan are paid when due, as well as, various reporting requirements to the Supervisor of Pensions, members and persons who have established the pension plan.

The administrator of a pension plan is expected to establish and adopt a written statement of investment policy for the pension plan. The statement of investment policy should contain guidelines as set out in the regulations.

The statement of investment policy is one of the governance documents which should be filed with the Supervisor of Pensions. The administrator shall ensure that investments relating to the pension fund are selected from investment categories specifically permitted in the statement of investment policy.

In addition, the administrator is expected to file with the Supervisor of Pensions financial statements for the pension fund or plan at the end of the fiscal year. Where the pension plan has BZ\$1,000,000 or more in assets, calculated at market value, the financial statements should be audited.

A pension plan registered under the Act must provide for full vesting of accrued benefits in each of its members within a period which does not exceed five (5) years after commencement of membership in the pension plan. There are portability provisions set out in the Act for a member of a pension plan who terminates employment or ceases to be a

member of a pension plan. These includes transfer to the pension fund of a new employer or a financial institution pension plan or the purchase of a life annuity.

It is evident that the enactment of the *Private Pension Act*, have been put into place so as to ensure that private pension plans established in Belize will operate within an effective legal framework. However, as a result of certain rigidities introduced in the new law and to the general perception that the new regulations make too costly the business of managing a pension plan or program, many companies are opting to close pension plans they were managing.

IV. Assessment of the Market, Institutional and Infrastructure Gaps for Capital Market Development

A. Access to Credit and Market Conditions

In order to analyse the potential for developing the capital market in the country, it is critical to study the demand for equity and debt financing and investor appetite for such instruments. This chapter attempts to do so. A major deterrent to analyzing the Belizean economy is the lack of updated and comprehensive information and time-series data on Belize's private sector. An additional hindrance is the lack of an official disclosure requirement for businesses, meaning that there is only limited information available on companies, as audited annual financial statements are not publicly available. This lack of disclosure has had adverse implications for risk assessment, the cost of finance and the identification of investment opportunities. Clearly, it also limits any attempt to propose measures for the development of a capital market, due to the difficulty of analyzing the potential size of the demand and supply of instruments.

The Private Sector Assessment Report of Belize (PSAR) produced in 2014 by a collaboration of IDB, the CDB, and UK and Canadian AID estimated that Belize's private sector accounts for about two thirds of the total economy measured in various ways, including by its shares of total consumption, investment, credit and employment. Thus, it can be concluded that Belize is a mixed economy with a large private sector relative to the size of the economy. The PSAR highlighted that "the financial system is characterized as comparatively underdeveloped and also high-cost. The undeveloped and oligopolistic structure of the industry has led to significant challenges for businesses in terms of their access to finance". This is not surprising because as in many developing countries, bank credit is the main source of financing for large businesses, while credit unions and money lenders in the informal sector tend to finance smaller investments and micro, small and medium-sized enterprises (MSMEs).

While credit information is also limited and incomplete, it is estimated that the private sector's share of total credit tends to exceed two-thirds of the total. The evidence also shows that the public sector does not crowd-out private-sector activity in Belize (less than 10% of total bank credit goes to the public sector). The PSAR indicated that domestic credit extended to the private sector averaged about 60% of GDP in 2009-2013 (based on World Bank data). This figure is high compared with the average in the country's Caribbean peers, with the exception of Antigua and Barbuda and also Barbados. The excess liquidity in Belize's

banking system suggests that the formal private sector is not constrained by a lack of available funds for lending, but rather by risk aversion on the part of lenders. Moreover, private foreign investors in Belize have access to credit through international channels, suggesting that this segment of the private sector is not overly constrained by current high domestic interest rates. Domestic firms only issue debt or finance themselves abroad on a limited manner due to restrictions related to foreign exchange controls.

A Caribbean Region study of enterprise development done by the CDB in 2016²⁹ analysed access to finance and affordability of capital for micro, small and medium enterprises in various countries in the region. The analysis was based mainly on bank credit, given that loans for credit unions to business are usually classified as personal loans. Stakeholders mentioned that the main issues in terms of finance in Belize were limited access and high cost. Loans to businesses are available at high interest rates, with a collateral requirement that generally can exceed 175% of the value of the loan.

As is the case in other parts of the Caribbean – and generally in the developing world, micro and small businesses in Belize often lack appropriate collateral to back their financing needs and are, therefore, more credit constrained than large businesses. As a result, several studies have concluded that the GOB should give more consideration to establishing Credit Guarantee Schemes to address the shortfall in Micro, Small and Medium Enterprise (MSME) collateral capacity.

Another major deficiency in Belize is the inadequate availability of data and information on critical aspects, such as: a mapping of private- sector activities by sector and size of business, main constraints to the development of private investment and activities; availability of information on the types and conditions of financial services available to the private sector such as factoring, discount of letters, and long-term credit, a complete description of the labour markets and of the registries for real estate and movable property, among others. Setting up a Credit Bureau would be a move in the right direction to facilitate access to credit for MSMEs.

The most comprehensive recent study of MSMEs in Belize is the Micro, Small and Medium Enterprise Policy and Strategy which was prepared in 2012 under the auspices of the BELTRAIDE with financial support from the CARICOM Development Fund (CDF).³⁰ It highlighted that Belize is an economy comprising mainly MSMEs, estimating that they generate over 70% of private sector employment and incomes, and contribute significantly to the GDP.

The study mentioned that the sector had not been able to realize its full potential, with failure rates above 80% of new entrants in some sectors. MSMEs continue to suffer from a number of weaknesses, which limit their ability to take full advantage of economic opportunities in the local, regional and extra regional markets. As the other studies mentioned in this report, it concluded that the main constraints to its development were the poor policy and regulatory environment, limited access to finance, markets and marketing, the high cost of doing

²⁹ CDB (2016). “Micro-Small-Medium Enterprise Development in the Caribbean: Towards a New Frontier”.

³⁰ Seepersaud, Michael M. (2012) Belize MSME Policy and Strategy.

business that limits competitiveness and the poor availability of quality business support services. These constraints had been first identified almost two decades ago and were mentioned in a 2001 IDB study.³¹ The IDB 2001 study estimated the number of micro and small businesses at 17,000 contributing 45% of GDP and 32% of total employment.

Table 11: Typology of Private Sector Enterprises in Belize				
Type of Enterprise	Employees (Full Time)	Annual Sales (Belize \$)	Investment	Manufacturing Space (ft²)
Micro	Owner manager - <5 employees	<100k	<50k	na
Small	5 – 19 employees	<500k	<150k	<372
Medium	20 – 50 employees	<1.5 million	<500k	<557

Source: Seepersaud (2012)

The main goal of the MSME Policy and Strategy Study of 2012 was to reduce poverty in the country through:

- (i) increasing the flow of capital to SMEs;
- (ii) enhancing the business and entrepreneurial skills of MSME owners/managers;
- (iii) promoting market access and competitiveness; and
- (iv) enabling MSMEs to access the resources they need to develop (human, technological and financial).

When access and conditions of finance were analyzed, the report concluded that the main issues were limited access to capital and affordability restrictions. Although the report indicated that there was no shortage of micro-finance, access to capital remained constrained by:

- (i) low capitalization;
- (ii) lack of collateral security;
- (iii) aversion of traditional financial intermediaries to lend to the sector;
- (iv) high administrative costs of small loans;
- (v) high cost of loan financing; and
- (vi) disincentives to equity financing relative to debt financing due to high costs, small size of firms, and closed family-owned companies with little interest in disclosing information.

There was also the on-going complaint that the cost of financing is high and that Venture Capital is nonexistent.

In the case of Microenterprises the policy objective was to provide access to affordable micro-finance promoting the growth of micro-finance institutions (Credit Unions, DFC, Non-governmental Organizations (NGOs)) and micro-credit windows at Commercial Banks. The strategy included improving the availability of low interest capital for micro-finance institutions, encourage the use of co-signers and other alternative to fix-asset collateral, train credit officers, and support the growth of Credit Unions.

³¹ Wenner, M., Chalmers, G., Microfinance Issues and Challenges in the Anglophone Caribbean. Inter-American Development Bank, 2001

The policy objective for SMEs was to provide greater access to affordable financing, through reducing the costs and risks of lending to the sector. The main policy strategies included:

- (i) establishing a loan guarantee program with participating financial institutions;
- (ii) promoting equity financing of SMEs either directly or through tax credits through a venture capital fund and provide incentives for investing in this fund;
- (iii) instituting a credit reporting system to provide information about potential borrowers in a timely and cost-efficient manner (this information would be used to determine credit risk and facilitate access for credit-worthy clients);
- (iv) facilitating access to low cost funding from external sources such as CDB, FAO, IFAD, CaribExport, IDB, etc., for on-lending to the sector at lower rates;
- (v) conducting educational and awareness programs on the importance of credit worthiness;
- (vi) providing technical assistance and training in project/loan appraisals and business planning including utilization of online tools;
- (vii) providing financial support for the implementation of standards and certification thereto and either subsidize or support in full the cost for calibration/testing/certification with respect to TBT and SPS for Micro and small enterprises;
- (viii) encouraging the increase of credit to the sector by traditional financial institutions through a tax credit of 10% on the incremental value of loans and provide a tax credit of 100% on dividends earned from investing in MSMEs, either directly through an MSME Development Fund;
- (ix) establishing export and pre-export credit schemes;
- (x) providing crop insurance and crop liens to improve access to credit to small farmers; and
- (xi) encouraging the establishment of MSME windows at traditional financial institutions with a technical assistance component, speedy disbursement and special repayment terms; among others.

Thus, there is no shortage of recommendations to improve access to credit and facilitate a reduction in its cost. The constraint appears to be the slow implementation of those recommendations that have been confirmed by various studies as very important to improve the financing situation of MSME in the country. The development of a securities market would be marginal for the majority of firms in the country, since only a handful of firms could benefit from it in the short-run as will be shown in the following section.

Bank Financing of Private Enterprise

Belize has a banking dominated financial system. We tried to obtain information on the structure of commercial loans by size, disaggregated by borrower, but that information is not available. We were able to obtain the information disaggregated by number of loans (and not by number of creditors), which can be used as a proxy. As of June, 2018 outstanding commercial loans from the banking system amounted to BZ\$1,055 million which involved the approval of 8,043 individual loans (note that some of them could have been granted to the same enterprise). If we look at the structural composition of commercial credit in the country, it becomes evident that the bulk of credit is provided in a small number of loans. More than 20% of total commercial loans outstanding as of June 2018 were granted on 13

credit operations, and a total of BZ\$687.8 million (65% of total commercial loans outstanding) was granted on 168 operations.

The conclusion of this analysis is that there is a very limited number of firms in Belize with the capacity of accessing loans from the banking system larger than BZ\$1 million. The fact that there were only 13 loans outstanding over BZ\$10 million, corroborates what several bankers and financial advisers responded when asked how many companies in Belize would have the capabilities to potentially raise funds in the local market. The general response was not more than 20 firms. In this context, it is not realistic to think that the country could accommodate a Stock Exchange, and even the development of a private debt market would be a significant undertaking. This does not mean that the country should discard any initiative to develop a capital market, but that it has to be realistic about its limited potential for growth.

Table 12: Structural Composition of Commercial Loans of Domestic Banks (June 2018)

Breakdown by Loan Amount (in BZ\$)	Outstanding Balance (in BZ\$ million)	Number of Loans
0 to 5,000	4.7	3,895
5,001 to 10,000	5.0	652
10,001 to 20,000	10.5	709
20,001 to 50,000	33.1	1,026
50,001 to 100,000	43.2	627
100,001 to 500,000	166.3	804
500,001 to 1'000,000	104.8	162
1'000,001 to 10'000,000	468.5	155
10'000,001 and Over	219.4	13
	1,055.5	8,043

Source: CBB (based on Bank Returns)

The IDB can assist the government in structuring and providing financing to set up a credit guarantee fund for SMEs. It has had very successful experiences with this type of mechanisms in Barbados and Jamaica, and it has recently started assisting the government of Bahamas to develop such a fund.

B. Legal and Regulatory Capabilities

The country lacks a Capital Markets Act or a Securities Market Act, regulatory oversight or stock exchange rules to define and govern relationships among market participants and to protect the investing public. As a result, trading has not been transparent, full disclosure of investment information is lacking and there are no stock exchange rules governing issuers, broker/dealers, capital standards, trading and clearance and settlement. In short, the country lacks a legal regulatory framework for the development of a proper capital market. The government is aware of the need to introduce legal changes to provide an appropriate framework for market development and is planning on developing draft legislation subsequent to the completion of this consultancy report.

Currently, the most developed area of the securities industry is the primary market for government securities which is managed by the CBB, but it still is quite nascent and limited. The major holder of GOB paper is the CBB itself and there is no real market for secondary trades since most investors have a buy and hold policy. Besides there is no price information nor rules that would guide the functioning of a secondary market and protect the interest of investors.

As mentioned, the Companies Act is the main law regulating the functioning of Private Sector companies in Belize. It is considered obsolete, and it lacks a full treatment of matters such as insider trading, protection of minority shareholders, prospectus requirements for new issues and information disclosure in general, among others. Significant efforts have to be undertaken to put in place a proper regulatory framework for securities trading. This effort has to start with the enactment of a Capital Markets Act. Without it, it is very unlikely that much progress can be made in market development, short of minor improvements in the primary market for government securities, improving the coverage and timeliness of auctions of different securities and trying to develop a yield curve.

There is a need for regulations to develop both the primary and secondary markets for all types of securities. Regulatory advice is required for issuance (in particular for primary issue of non-government bonds), investment, new products, investor protections, broker-dealer certification and licensing, code of conduct, the issuance of benchmarks for government securities, among others.

C. Status of Financial Market Infrastructure

The existence of an adequate Financial Market Infrastructure (FMI) is critical to the development of securities markets. FMIs facilitate the efficient interaction of financial market participants and, enable the settlement of contractual obligations (trades) of multiple counterparties via a single entity rather than many bilateral relationships, reducing transaction costs between participants. As mentioned before, Belize has a limited CSD that is hosted in the CBB. It only handles government security registration and settlements on-line for primary market transactions involving the CBB and the five commercial banks. Any other transaction has to be intermediated through them and is not real-time. The CSD currently does not operate with private sector securities. The CBB has the possibility of purchasing additional capabilities to allow the CSD. As indicated, there are other configurations or add-ons a customer can purchase from the provider. The CSD that the CBB procured from the supplier did not include the possibility of handling private debt and equity, because it was not a solicited specification. In order to do so, the CBB would need to purchase a special module from Montran Corp. In addition it would be required to make legal and regulatory changes because the country lacks securities legislation which may be a precondition for the CSD and the CBB to be involved in the handling of those securities. It is not clear whether the CBB wants to promote this as a policy matter. This is a critical decision that has to be made as part of the design of a master plan for the development of the capital market.

Adequate depository and settlement procedures for cash and securities are critical to the development of a securities market development. The CSD acquired by the CBB is a well-

functioning government securities settlement infrastructure that includes automated (dematerialized) accounts for securities, reliable custody arrangements for the recording of securities ownership, and a settlement system with delivery versus payment allowing for same-day settlement. It has to be complemented, but it is a very good starting point.

As indicated in a recent study on how to organize CSDs in developing markets by Wendt, Katz and Zanza (2018) there is no evident international best practice on how to organize CSDs at a national level. Rather, the paper argues that the optimal model depends on the country's specific circumstances and features, such as the size of its markets, strength of private operators and the level of market development.³² They indicated that international experience shows that authorities in developing markets, in particular central banks, may grapple with two questions: (i) whether to pursue a single CSD to increase market efficiencies and benefit from economies of scale and scope; and (ii) whether to partake in the governance of the CSD as owner and/or operator. The paper presents seven considerations that authorities may take into account in answering these questions and determining the best model for their country:

- (i) efficiencies through a single CSD, that is, the concentration of central securities depository services into a single CSD can bring efficiencies in the form of economies of scale and scope;
- (ii) efficiencies can reduce the costs and complexity of the settlement and safekeeping of securities, and increase the general service level and innovation;
- (iii) efficiencies through links between CSDs;
- (iv) efficiencies through competition among CSDs -not a useful tool for smaller and/or less developed markets due to the high fixed cost of CSD's IT systems;
- (v) promotion of public interests, that is, the CSD should promote public interests, such as financial stability and financial market development and should be able to support the implementation of monetary policy, government debt management, and supervision and monitoring of the financial institutions;
- (vi) sufficient financial resources and human resources - the operator of a CSD should have sufficient resources to support CSD operations;
- (vii) compliance with international standards; and
- (viii) the good reputation and integrity of the operator of a CSD.

The paper also analyzed the most important reasons why CSDs usually have a public function. It highlighted the following reasons:

- (i) a CSD supports market development through the provision of a central service for clearing and settlement, thereby supporting trading, capital formation and indirectly liquidity in the market;
- (ii) in most countries the CSD is classified as a systemically important infrastructure given its central role in a market (a failure in the CSD could disrupt securities markets and cause broader financial and economic instability through propagation of operational or financial losses);
- (iii) many governments rely on markets for government securities to fund their budgets, manage their liquidity, and access information to develop their debt strategy (a

³² "Organizing Central Securities Depositories in Developing Markets- 7 Considerations", Froukelien Wendt, Peter Katz and Alice Zanza, IMF Working Papers WP/18/66 (2018).

- poorly functioning CSD could disrupt the credibility of the government’s debt management program and undermine investor confidence);
- (iv) Central Banks rely heavily on CSDs to carry out monetary policy through open market operations with government securities or other securities that are held within the CSD; and
 - (v) CSDs are essential for the timely posting or delivery of collateral for payments, development of the capital market, and other purposes.

This public function of a CSD is important, not only for government securities, but also for corporate securities.

The existence of the CSD in Belize and the possibility of expanding its capabilities by acquiring additional modules or functionalities from the supplier are very positive for future capital market development. The CSD is not a trading platform. The country does not have a trading platform that would complement the existing CSD. The suppliers of the CSD (Montran Corp.) can provide the CBB a separate platform designed to facilitate secondary trading. A CSD, a functioning trading platform, the existence of brokers/dealers (to intermediate between buyers and sellers, and a legal and regulatory framework are prerequisites for the development of such a market.

V. Guidelines to Pave the Way for Developing the Capital Markets in Belize

A. Overview

Efforts to develop a capital market in Belize will face many challenges associated with the small size of the economy, the limited market due to small number of potential issuers and investors, the lack of legal and regulatory framework, the inexistence of a regulator to carry out the supervisory role or enforcement, limited technical expertise and lack of securities intermediaries (such as brokers or dealers), as well as, inadequate market infrastructure.

As mentioned in a recent IFC document, “rudimentary markets for capital—for raising money and investing—exist in even the remotest places around the world. However, prudent macroeconomic management, regulation, investor protection, and innovation are necessary to transition these nascent markets, which are often speculative ventures prone to fraud, into modern, efficient, and well-functioning markets capable of serving the needs of investors and entrepreneurs, borrowers and lenders alike”.³³ The challenge for any government is to put in place an adequate macroeconomic, legal, regulatory and institutional framework that enables the development of such a market. In the case of Belize, due to its size, the challenge is even greater.

There is no market for a Stock Exchange in the country at this time. The small size of the economy and the small number of firms with large financing needs (bankers estimated that less than 20 of their clients would be big enough to be able to issue an initial public offering or even a bond issue larger than US\$5 million in size) limit the potential supply of instruments. On the other hand, there is also a small number of institutional investors with an appetite for equity. Finally, even if a Stock Exchange were established and some firms opted

³³ IFC (2017)

to issue shares, it is very likely that they would be bought by investors with a buy and hold purpose, thus limiting secondary trading in the Stock Exchange. The recommendation at this point is to concentrate in developing other aspects of the capital markets, before even thinking about setting up a Stock Exchange in the country. There is some appetite for long-term debt instruments from institutional investors, insurance companies in particular, thus the importance of establishing market development priorities, concentrating in developing the markets for those instruments more likely to succeed.

There is scope to improve the functioning of the primary market for government securities and develop a secondary market for those securities. This would be the starting point for testing market interest in a secondary market for securities and its viability. In addition, the government can also establish some measures to help develop a market for private securities, starting with short-term debt such as commercial invoices or commercial paper.

The CBB has invested in a CSD. This is a good starting point to implement a trading platform for secondary market transactions. Critical decisions would have to be made with respect to the functioning of that trading platform. Who will be responsible for its operation? Who will regulate it? Who will license brokers and other market participants? What types of instruments will be traded? Which types of market participants will be allowed to have direct accounts in the CSD?

Since such a platform could only be used for large companies, the financing requirements of SMEs would not be resolved. For that, the government should implement a credit bureau system, a collateral registry and a MSME guarantee fund, which have been recommended in several studies done in the past decade aimed at identifying and solving constraints to private sector development. In this respect, there is no need for further studies; the issues are the same, as well as the solutions.

Development of a well-functioning government bond market in developing countries will often precede and facilitate development of a private sector bond market. At the same time, private debt markets need other elements to be successful, most notably a disclosure system, a credit-rating system, and bankruptcy laws. Authorities should also avoid possible crowding out and statutory restrictions that impede private sector bond market development.

The extensive experience of multilateral organizations in assisting countries across the globe has shown that capital markets development is a gradual process requiring strong leadership from government authorities, as well as, a significant commitment of time and resources. Thus, the first step toward the development of the capital market in Belize would be the conviction, on the part of the government, on its importance for the country. If capital market development is not considered top priority in the country's development program, not much progress can be expected in this endeavour. The GOB could consider taking a comprehensive long-term approach and draft a ten year strategic master plan to guide capital market policy through 2028. Without a vision of what kind of capital market it wants to have in ten years, not much will be achieved. The master plan would have to identify strategic pillars and policy actions to be implemented in the next years and define the staging or sequencing of the various proposals. Suggested pillars include:

- (i) strengthening the macroeconomic conditions;

- (ii) creating a robust legal and regulatory framework;
- (iii) strengthening the market infrastructure (specifically trading and settlement mechanisms);
- (iv) developing the government securities markets (primary and secondary), and promoting the growth of private securities as alternative to traditional financing sources.

The development of the market should be done in phases. It should start with consensus building, followed by the development of a real primary market for government bonds, with a smaller participation of the CBB as final purchaser of the issues. The next phases would be development of the secondary market for government securities and of the corporate bond market. Consensus building will be very important to agree on the strategy and ensuing policies.

International organizations, such as the IDB and the WBG, have helped countries develop capital markets and access international markets for investment financing for decades. This includes both transactions and advisory support, including a broad range of activities aimed at developing both government and non-government bond markets. Belize could seek their assistance to develop its strategy for capital market development.

In the government bond market, these international organizations have extensive experience assisting governments in improving their debt management, building more liquid yield curves to serve as a benchmark for private bond markets, and enhancing market infrastructure. In the non-government bond market, they have worked actively with local regulators to improve regulation and supervision of the markets (including issuers, market infrastructure, intermediaries, and institutional investors), to improve market infrastructure, and, depending on the country, to promote an enabling environment, especially in terms of taxation and accounting issues. Their advisory services have helped a diverse group of emerging economies to develop their capital markets and mobilize funding of institutional investors to strategic sectors, such as, infrastructure finance.

The development of capital markets in Belize as in other developing countries, has been hampered by macroeconomic developments and by sector specific issues. The fiscal fragility of the economy and the high indebtedness do not contribute to the development of a healthy securities market. The macroeconomic developments which influence market expectations will have to be addressed through Government stabilization and reform programs. In addition, Belize has one of the smallest economies in the world, which clearly puts a limit on its possibilities of developing a capital market based on its local investors. If the decision is to maintain capital controls, the potential for market growth will be dampened due to the lack of foreign portfolio investors. This is an important policy decision that will have to be discussed when preparing the proposed master plan.

Addressing sector-specific issues will require legal, regulatory and policy changes. The Government is aware of the need to make changes to promote the development of capital markets and to correct a series of deficiencies in the current legal framework which inhibit investor interest in the market, restricts the development of new instruments, and discourages issuers of equity and fixed income securities.

Based on the analysis of capital markets elsewhere, it would appear that new legislation or a policy framework should include: development of an active primary and secondary market for government securities, clarification of the legal and regulatory framework concerning corporate bonds, equitable treatment for public and private securities (including tax neutrality), review of legislation to facilitate the development of mutual funds (Mutual Funds Act, Cap 268 (2000)), creation of some sort of securities authority to establish a basic but limited framework of regulations to license brokers and authorize issues; and revision of tax policies for financial instruments and transactions, including the elimination of the Stamp Duty Tax on private security transactions.

The design and implementation of a well thought education program directed to market participants, on the demand and supply side, complemented by a training program to the regulators, will also be important elements in this effort. There is also a need to assist in the development of institutional investors, facilitating their capacity to invest in private issues. The development of the capital market would also benefit from a reduction of the strong hold of the CBB in the government paper market, by increasing information disclosure on prices and volumes transacted and working on developing a real secondary market of government paper.

The regulations should be designed to enable the trading of financial securities in a secure environment, enhancing confidence, but without being too strict to suffocate market development. The GOB should recognize how fundamental market development is for economic growth and put investor protection at heart for the integrity of the market. The Capital Markets Act should, therefore, be designed with caution to avoid suffocating the market, but to promote and nurture market fairness and efficiency through minimum disclosure requirements. A critical decision is to determine where to place the Capital Market Regulator and how to organize it. Some small countries opted to enlarge the role of the CBB assigning to it the oversight function of the market and in some cases to base the trading platform in the CBB until the private sector is ready to take over its management. It appears that in a small country like Belize, the only institution with the capacity of promoting and overseeing the market is the CBB, at least in the initial years of market development. However, the responsibility to develop the securities markets lies with the private sector that not only has to provide the instruments, but should develop financial advisors, stock brokers, broker/dealers and promote the participation of investors.

To support the development of the equity market, the government could even consider in the medium-term offloading its shareholdings in selected companies in the corporate sector to spur participation and its growth. For instance, it could sell part of the shares it holds in BTL, BEL and the Belize Water Company. This would imply making changes in corporate governance and information disclosure of these firms.

B. Building Blocks to Develop the Capital Market in Belize

As mentioned in Section I of the report, there are various enabling elements that foster the development of the capital market. These include the stage of economic development or economic situation of the country, the regulatory and legal framework, the existence of

market infrastructure, education and public awareness, taxation policy and foreign exchange regulations.

Macroeconomic Environment

The importance of having a stable macroeconomic environment and sound economic policies has been stressed in various sections of the report. This perspective is advanced by recommendations from the IMF and other international organizations on the reforms needed to strengthen the macroeconomic conditions of the country, particularly related to fiscal policies aimed at creating a surplus in the fiscal accounts and put public debt in a sustainable situation, in line with IMF recommendations.

The high level of indebtedness remains a major threat to growth and macroeconomic stability in the country. The government has promised to undertake several actions to reduce the public deficit and put public debt on a sustainable situation, in line with IMF recommendations, although it is not clear that they will be sufficient to bring the public debt to a downward trajectory. The 2017 debt agreement reduced the cost of servicing, a relatively expensive part of external debt, but in the absence of a nominal reduction of principal, the overall level of public debt remains high. The IMF has recommended the implementation of a well-designed fiscal rule that targets debt reduction to 60% of GDP and could place the country's debt on a clear downward path.³⁴

Legal and Regulatory Framework

The government should promote the passage of a Capital Market or Securities Markets Act. It should also develop a legal and regulatory framework to attract entrepreneurs and investors to the capital market. This framework should take into consideration the principles of the International Organization of Securities Commissions (IOSCO). At some point, the capital market authority should contemplate becoming a member of the IOSCO MMOU signatories.

Prior to drafting the new securities act, the GOB needs to analyze the legal framework to determine the specific needs in terms of laws and regulations required for the establishment and operation of a trading platform and its clearinghouse. Not only the Securities Act has to be drafted, but also complementary regulations (i.e. on conduct of business, accounting and financial requirements for licensees, prospectuses, continuing disclosure obligations of public issuers, advertising and investment funds, among others). In addition, it would be necessary to review other relevant legislation (i.e. bankruptcy law, civil, commercial and criminal codes, etc.) and propose amendments with a view to creating an enabling legal structure for the development of a safe, credible and open capital market.

The Securities Act should deal with the issue of who will assume the role of supervising the market. Initially, this public supervisory unit and the trading platform could be created within the CBB that could operate it in the initial operating period. Later, they would have to spinoff into independent third parties. The supervisory unit or market regulator will have to prepare minimum regulatory norms and procedures and ensure an initial design that will facilitate its later transfer. This authority will have to exercise regulatory oversight in three distinct ways:

³⁴ IMF (2018)

- (i) requiring market professionals and all types of securities businesses to be licensed on the basis of specified criteria;
- (ii) supervising and monitoring all licensees and licensed businesses; and
- (iii) ensuring that listed companies comply fully with their listing obligations.

Given the small market size, there is a strong need to keep regulatory costs low, particularly in the early stages of market development. Therefore, the supervisory unit, as well as, the private participants who could later form part of a Self-Regulatory Organization (SRO) if it is decided to implement one in the future, should always keep in mind the need of having a structure with low overhead.

It is suggested that any legal and regulatory changes should be preceded by decisions on what will be the country's stand in relation to CARICOM efforts towards creating a regional capital market. The Heads of Government of CARICOM agreed on a recent Summit on July 4-6 in Montego Bay, to undertake a series of national consultations later this year on the development and regulation of a regional securities market. The objective is to develop, by next year, a single piece of legislation across CARICOM that will create an integrated capital market, including an agreement by member states on the creation of a supranational securities commission able to regulate such activity. The mandate is to finalize the necessary instruments and model securities legislation by July 2019. Belize could take advantage of these efforts, regardless of its final decision to join or not this international initiative, to draft its own legislation.

The development of a regional securities market that includes many countries is an alternative that has been proposed in many regions of the world to overcome the problems faced by small countries that do not have the critical mass to develop such a market independently. Belize is one of the smaller countries in the World, thus it could benefit from integrating into a regional platform. The IFC stated that in countries that lack the scale or size for rapid and efficient development of local markets, capital markets linkages—such as safely accessing international capital markets, promoting foreign listings, and regional exchanges—could be considered, although WBG experience shows these to have had mixed outcomes.³⁵

The rationale for creating a CARICOM regional capital market is based on the existence of several functioning stock exchanges in the region that are individually small and illiquid and their combined market capitalization is relatively low compared to that in other emerging markets. A regional market (for stock or debt) would allow firms from many countries to list on a platform that covers multiple jurisdictions. A regional market would more easily achieve the critical mass of listings and liquidity that national platforms have historically struggled to attain. Investors would also benefit since they would access a wider and more diverse set of companies in which to invest. It is also acknowledged that there are deterrents to listing in several of these markets, such as onerous disclosure and reporting requirements, fear of loss of control of the business and high fees. It is not clear how this situation would be resolved under a regional market.

³⁵ IFC (2017)

When CARICOM's Council for Finance and Planning (COFAP) met in June 2017, it concluded that the absence of a single capital market within the region was holding back economic growth and governments and the private sectors ability to mobilize financial resources. At their June meeting, COFAP Ministers agreed on the need to implement several measures, including common standards for regulatory matters relating to authorization of issuers of securities; the licensing of market intermediaries; common standards for rules regarding the conduct of business; and prospectus disclosure rules. It also envisaged an agreement on a supervisory authority's powers to conduct inspections and investigations; rules for the registration of all securities prior to issue or them being traded; and the creation of a standardized approach towards enforcement. If Belize decides that it wants to encourage the development of its capital market, it could benefit from the background work done to prepare these common standards, regardless on whether the regional market is finally established or not, or if Belize decides to join it. It could help as guidelines for developing its own legal and regulatory framework.

Establishing a regional framework would require considerable work to overcome challenges created by national differences, including different currencies, tax regimes, listing and disclosure requirements, anti-fraud and post-trade rules and, in some cases, restrictions on foreign ownership. In addition, the countries are in different stages of market development, and some of them, such as Belize, do not even have a basic regulatory framework, much less a solid market infrastructure since it even lacks a trading platform for any type of securities. Thus, achieving the regulatory alignments required to establish a regional capital market may prove challenging. Although agreed by Heads of Government as an essential element in stimulating future economic growth, in recent years CARICOM states have found it difficult to agree to the detail and implementation of any new pan-Caribbean arrangements especially if they require their own authorities to cede legal and supervisory authority to a supranational entity. In the case of Belize, major deterrents to participate in this effort are capital controls and the existing stringent foreign exchange regulations.

Effective regulation of market intermediaries is important to protect investors, reduce systemic risk and for the functioning of the secondary market. In an almost non-existent market, such as the current one in Belize, faced with strong hurdles for growth, the licensing requirements for market intermediaries (such as, brokers or dealers) cannot be too stringent, but regulations have to be sufficient to ensure that the intermediaries act in accordance to minimum standards of professional conducts and some behaviors are prohibited (such as, front running, undisclosed trading on their own account, among others). In addition, there is a need for regulations to protect investors and draft guidelines for private placements of stock and bonds.

Taxation

Taxation in the financial markets should be fair in order to avoid distortions differential tax rates can have on the investors. The government should ensure that the tax policy is as fair as possible. The government should avoid applying different tax rates on the various financial instruments, as well as, on the participants. Tax legislation should be as fair as possible on instruments and participants. In the case of Belize, there seems to be certain tax advantages that favor government paper over corporate debt and certain withholding taxes on financial transactions that benefit bank deposits over private bonds. In certain markets, foreign

investors may pay a lower rate than domestic investors. This will tend to discourage local investors as the tax policy is distortionary and affects the development of the bond market. Any bonds or types of transactions which are disadvantaged in terms of tax are often hardly used by some investors. Policies should avoid granting favorable tax treatment to some instruments, services or industry segments over others. The government should review taxes on financial instruments to ensure that all investors, instruments and types of financial transactions are taxed at the same rates to avoid the distortions.

The taxation of earnings on government securities and any capital gains derived from transactions of government securities will influence savings and investment decisions in general, and, in turn, affect the development of the government securities market. An appropriate taxation system for interest earnings and capital income on government securities should be based on the three fundamental tax principles: tax neutrality, simplicity, and fairness. A tax system should collect tax revenue from interest earnings and capital income from government securities with the least distortions possible on the savings decisions of taxpayers. Tax incentives to promote financial instruments, should not be enacted at the expense of other financial instruments. In order to develop liquid and active securities markets, the GOB is advised to eliminate securities transaction taxes and put all instruments and investors in a level playing field, in the process eliminating possible distortions.

Building Market Infrastructure

Belize has made an important effort through the CBB to establish a CSD. A CSD is probably the most crucial element of the financial market infrastructure, and once you have it, you can build on it to add functionalities or to link it to other elements of market infrastructure, such as a trading platform.

A CSD is the entity which provides a central point for depositing securities, for example bonds and shares. CSDs' clients are typically financial institutions themselves, such as custodian banks and brokers, rather than individual investors. Although CSDs across the world might have very different activities, the CSD Regulation of the European Union in 2014 describes the core functions of such entities:

- (i) operates a securities settlement system (“settlement service”);
- (ii) records newly issued securities in a book-entry system (“notary service”); and
- (iii) provides and maintains securities accounts at the top tier level (“central maintenance service”).

In practice the vast majority of CSDs perform all three services. The CSD is at the “top tier level” of the securities chain, that is, all holdings in a given financial instrument, whether by an individual or a financial institution, are ultimately kept in a securities account at the CSD.

The clearing and settlement system is an essential element that contributes to secondary market liquidity. An effective clearing and settlement system increases transactions since, with the reduction of counter-party risk (provided by the system), participants feel more assured that they will get paid when they sell their bonds and that they would receive the bonds for which they paid. All efficient clearing and settlement have three main elements: (i) a short settlement period, (ii) a CSD, and (iii) the DVP system (delivery versus payment). Belize has all these elements thanks to the implementation of the CSD.

For this reason, it is very positive that the country has a CSD, even if its current functionalities are limited to the registering and settlement of transactions in the primary market of government securities. Montran Corporation, the firm that provided the CSD to the CBB has a multi-currency TS that is designed to support the trading of fixed income assets (Government, Central Bank and Corporate issued debt instruments), as well as equities; basically any security type supported by Montran's CSD System. Montran's Trading System (TS) Solution consists of modules and interfaces designed to offer a complete range of trading functions.

As in other countries, the CBB found it desirable to play an important role in setting up and running the CSD, initially aimed at government securities. This public involvement was justified by the fact that the CBB is the major player in the government securities market and was perceived as the only institution in the country capable of operating a settlement system directly. The CSD can help the CBB to encourage the development of a market for government securities as a means to eliminate the need for central bank lending to the government and as a way to improve the monetary policy transmission mechanism. Setting up and managing efficient settlement arrangements for government securities is relatively easy and inexpensive when the securities accounts and the deposit accounts of the main market participants are held with the same institution, i.e., the central bank.

It makes sense in Belize to maintain the CSD under the aegis of the CBB in the initial stage of market development. While it is desirable for the central bank to play an active role in establishing and managing a central government securities depository, the depository function need not be a direct central bank responsibility. In the future, a decision could be made to organize the central depository as a separate public agency, even if located within the central bank, to allow a more transparent delineation of functions and responsibilities.

A central depository must determine the type and number of institutions allowed to hold accounts with it. In a two-tier depository system, all sub-depositories would be account holders at the central depository for securities belonging both to their own and to their clients' accounts. From a market development perspective, many other financial institutions actively engaged in the market for securities might also find it desirable to hold accounts with the central depository. A decision that will have to be made at some point is whether non-residents will be allowed to invest in domestic government securities. In that case the CSD would have to provide the means to integrate non-residents in their depository system and to give them access, to the extent possible, to the same settlement facilities as domestic investors. Most non-resident participants in securities markets rely on some intermediate sub-depository and in some cases, well-established international depositories like EUROCLEAR are allowed to become participants in the central depository.

If the country makes the decision to go ahead with its development of a capital market, the next step in terms of strengthening its market infrastructure would be to acquire a trading system or platform. Initially, it could be used to facilitate trading in government securities, but later could be used for trading of private sector instruments, such as, bonds or equity.

Developing broker/dealers and other market intermediaries

A major challenge when developing a nascent capital market is generating a network of broker/dealers. In financial services, a broker/dealer is a natural person, company or other organization that engages in the business of trading securities for its own account or on behalf of its customers. Broker/dealers are at the heart of the securities trading process. Broker-dealers can be "independent" firms solely involved in broker/dealer services or business units or subsidiaries of commercial banks, investment banks or investment companies. In the case of Belize, it is very likely that broker/dealers will initially develop as part of commercial banks.

When executing trade orders on behalf of a customer, the institution is said to be acting as a broker. When executing trades for its own account, the institution is said to be acting as a dealer. Securities bought from clients or other firms in the capacity of dealer may be sold to clients or other firms acting again in the capacity of dealer, or they may become a part of the firm's holdings.

Once it is decided who will be the regulator of the capital market, it should be given statutory powers to license securities market intermediaries including brokers, dealers, investment advisers, asset managers, custodians, credit rating agencies, as well as, stock exchanges and central depositories. The regulator should design a roadmap to attract some broker/dealers initially, to help create a secondary market for government securities. This will require licensing conditions that are not too strict as to discourage the creation of brokers/dealers (i.e. capital and infrastructure requirements). The aim should be to have a minimum number of broker/dealers which assure competition in the industry. For instance, to encourage market entry, the capital requirements should be made scalable. Under this approach, a certain minimum capital requirement is imposed when the firm is established and then, as the firm's activity grows, the capital requirement should also grow. In this way, market entry is encouraged, and thus competition within the industry should increase. Broker/dealers should also be free to charge the commissions that they consider appropriate. In addition, it is necessary to establish a strong capacity building program that includes areas such as: institutional capacity building for the regulator, certification and licensing, securities training modules for different market participants (on the supply and demand side), and a general education program on the importance of a security market for the country's development, for facilitating public sector financing and for the growth of the private sector.

The participation of the banks as intermediaries in the capital market appear inevitable, therefore, there is a need to review the Financial Institutions Act to allow banks to perform merchant banking type, financial advisory and other functions related to the capital market that they are prohibited from carrying out currently.

C. Developing the Government Securities Market

The government jointly with the CBB should develop a comprehensive bond market development strategy. The comprehensive program should address the conflicting roles the government plays in the market, that is, of the issuer, regulator and the macroeconomic policies. Government's commitment to market development should be shown through their continued presence in the market.

The primary market for government debt securities in Belize lacks a lot of the characteristics present in the developed primary market for government bonds in the more advanced countries (the use of an auctioning system to initially issue government securities, the publishing of auction results, the pre-announcement of issue dates, the existence of market makers, the existence of a REPO market and the existence of a benchmark yield curve).

Yield Curves provide vital information about interest rates to investors, and may also be used to derive bond prices. Benchmark yield curves currently do not exist in Belize because of the non-existence of data consequent to the non-issue on an ongoing basis of bonds of varying tenors. In a highly active bond market, where there is trading across many maturities, a yield curve can be developed using interest rates from several tenors. The government should, therefore, try to issue more medium to long-term bonds, so that there could be more bonds of varying maturities to populate the benchmark yield curve.

The IMF has also recommended to the government a more proactive debt management and more regular auctions of government paper to activate the domestic securities market and possibly generate savings on interest payments over time. The establishment of a liquid market in short-term government securities and the creation of a yield curve extending at least into medium-term maturities, as many analysts have recommended, would provide the basis for pricing corporate and would encourage the beginnings of a trading culture among the banks and institutional investors.

The secondary market for local government securities is practically non-existent in Belize. Its development implies more challenges because it involves developing a network of securities intermediaries (broker/dealers) and putting in place a legal and regulatory framework to protect potential investors and providing the necessary market infrastructure. The previous section covered these aspects.

Development of a well-functioning government bond market is very important because it often precedes and facilitates development of a private sector bond market. A well-functioning government securities market provides the institutional and operational infrastructure for the private sector market (for instance, the establishment of the CSD in Belize). The government securities bond benchmark is an important tool for price discovery in the private sector fixed-income securities market, thus its importance.

The role of government benchmark issues, the experience of broker/dealers, and the investor base or security purchases and trading all are valuable features of securities markets that could be drawn upon in the development of an effective private sector securities market. The government bond market also serves as a means of educating authorities, financial and nonfinancial institutions, and a wide portion of the population about the functioning of the debt market. This will create a knowledge base about bonds that will be useful when the time arrives to develop the private sector bond market.

A difficult task in the development of a bond market is building skills in the country for fixed-income securities intermediaries. Broker/dealers and market makers are required to develop and make a market for secondary trading of government bonds. In a small and underdeveloped market such as that of Belize, it seems inevitable that at the beginning, the

banks will have to assume this role and become important market intermediaries. In this context, putting in place a proper regulatory framework is critical.

D. Developing Private Sector Securities

While government securities markets provide many elements needed for a private sector securities market to function, there are several components that a private sector debt securities market requires, and, if absent, could impede its development, regardless of how well-developed the government securities market is. As mentioned by the World Bank and the IMF in their 2001 handbook to develop securities markets, the most important components to develop a private securities market are attractive issuers, a disclosure and information system, a credit-rating system, and bankruptcy laws that are particular to non-government bond markets. In addition, it needs to build up market infrastructure. All of these are currently missing in Belize.

Disclosure of Information

Without adequate and timely information, investors will not be interested in the securities being offered, particularly when dealing with private bonds. Information is needed not only about the securities being offered, but also of the issuing firm. Regulations on disclosure standards are very important, particularly when the market is nascent. There is usually a tendency from regulators, at an initial stage of market development, to establish too stringent rules to protect investors that may lead to moral hazard, since investors may be led to believe that issues sanctioned by the regulator are somehow protected from default. Regulators have to be very careful of schemes in which it pre-approves the issue before being launched in the market.

The GOB should ensure that there is differentiation between public offerings and private placement of securities. In a situation where the borrower would like to use the private placement to raise capital, the disclosure requirement could be less stringent than for public offerings. As it is assumed that in a private placement, this will be done with sophisticated investors. It should be made clear that private placements should be done with investors that understand the investment environment and should not be made to unsophisticated individual investors.

The GOB should ensure that there is an environment that allows quick and accurate disclosure of material information to the public. This will ensure that investors make informed decisions as they decide to invest in the securities market, as well as, them being protected. This includes information disclosure regulations and ensuring that appropriate accounting and auditing standards are in place.

Credit Ratings

Credit rating agencies perform a catalytic role in developing capital markets. The purpose of credit ratings is to provide objective and independent summary opinions of relative credit risk. Ratings give an indication of relative risk for a bond issuer's ability and willingness to make full and timely payments of principal and interest over the lifetime of the rated instrument. While credit-rating agencies help in the development of capital markets, they also

need a minimal degree of capital market development in order to be commercially sustainable.

It is doubtful whether most developing countries have the minimal degree of capital market development to sustain a credit-rating agency under normal conditions. This would be the case of Belize. One alternative has been for credit-rating agencies to expand into other business lines, such as, providing general financial information services, but even that does not appear attractive enough to interest these agencies to establish themselves physically in the country. Another, and more controversial, method to make credit-rating agencies willing to rate entities in developing countries has been to aid these agencies by public policy actions. In most developing countries with credit rating agencies, mandatory ratings by accredited credit-rating agencies have been introduced, and, often, a system is set up to license approved rating agencies. This seems to be too cumbersome for a country the size of Belize. The recommendation would be to try to piggyback on the experience of a neighboring Caribbean country and try to convince credit rating agencies operating in that country to provide services in Belize without a physical presence in the country.

Bankruptcy Laws

Having appropriate Bankruptcy laws is another essential element for developing private sector securities markets. While non-government bonds, typically private sector bonds, may default, government bonds denominated in the local currency do not default, at least in theory, thus the importance of good bankruptcy laws to protect debtors. There is much to be done on this front in Belize as shown in the 2019 Doing Business Report on Belize. The perception is that bankruptcy laws are biased in favor of creditors.

Strength of Legal Rights

This topic explores two sets of issues—the strength of credit reporting systems and the effectiveness of collateral and bankruptcy laws in facilitating lending. Belize ranks very poorly in terms of this indicator (172 of 190 countries). The main reasons for this poor ranking relates to low depth of credit information and to the lack of a credit bureau and of a collateral registry. In addition, there are major problems related to payment of debts in a situation of debtor insolvency.

Protection of Minority Investors

This indicator measures the strength of minority shareholder protections against misuse of corporate assets by directors for their personal gains, as well as, shareholders' rights, governance safeguards and corporate transparency requirements. Belize ranks 133 of 190 countries. There are major problems in terms of conflict of interest regulation, control of powers of directors, limits to extent of ownership and control, and corporate transparency which is very low.

Enforcing Contracts

The enforcing contracts indicator measures the time and cost for resolving a commercial dispute through a local first-instance court and the quality of the overall judicial process. Belize ranks 133 of 190 countries. The time taken to enforce contracts in Belize is 892 days at an average cost of 27.5% of the claim for the enforcements of contracts in national courts.

If judgments are appealed to the, Belize's highest appellate court, judgments would likely exceed this time period.

Resolving Insolvency

This indicator measures the time, cost and outcome of insolvency proceedings involving domestic legal entities. Belize ranks 83 of 190 countries. A receivership proceeding until the creditor is repaid all or part of the money owed takes at least two years and has a cost of 22.5%. The recovery rate is around 56.3 cents of the dollar. The insolvency procedure does not have a good framework to commence procedure, to manage debtor's assets, to involve creditors in the reorganization proceedings, among other deficiencies.

Annex 1. Description of Critical Actions to Foster the Development of Capital Markets in Belize

Critical Actions	Objectives	Priority/ Timing	Participants
I. Consensus Building on the Importance of Developing the Capital Markets	(i) Agree on a minimal set of objectives, goals and actions for capital market development.	High/ Short Term	Government officials and private sector
II. Preparation of Master Plan for Capital Market Development	(i) Draft a comprehensive ten year Strategic Master Plan to guide Capital Market Policy through 2028. (This requires decision on CARICOM's efforts to create a regional capital market).	High/ Short Term	Government with Technical Assistance from international organizations
III. Strengthen Macroeconomic Environment	(i) Put debt on a sustainable trajectory - clarify taxation of financial instruments; (eliminate distortions between public and private securities and type of investors).	High/ Short Term	Government officials
IV. Develop a Legal and Regulatory Framework	(i) Conduct a comprehensive review of the current legal and regulatory framework. (ii) Prepare a new Capital Markets or Securities Market Act (resolve critical issues such as who	High/ Short Term	Government Officials/ International Experts Requires Legislation

	<p>will supervise the market, who will manage the CSD).</p> <p>(iii) Establish basic regulations to licence broker/dealers and other market participants, among others.</p> <p>(iv) Aim for the legal framework to allow for a low-cost supervisory structure.</p>		
V. Build Market Infrastructure	<p>(i) Expand the functionalities of the Central Securities Depository (CSD) to private securities.</p> <p>(ii) Acquire a Trading Platform.</p> <p>(iii) Develop a network of broker/dealers.</p> <p>(iv) Develop a comprehensive capacity building program.</p>	High/ Medium Term	Government Officials (Mainly CBB who is currently in charge of the CSD) and Private Sector
VI. Develop the Government Securities Market	<p>(i) Develop a joint CBB-GOB comprehensive government bond market development strategy.</p> <p>(ii) Encourage a liquid market on government securities.</p> <p>(iii) Improve the auction system.</p> <p>(iv) Develop a yield curve.</p>	High/ Medium Term	Government Officials (mainly from CBB)

	(v) Encourage the development of intermediaries of government paper.		
VII. Develop a market for Private Sector Securities	(i) Facilitate supply and demand by implementing appropriate macro-policies and adequate legal and regulatory framework that includes: disclosure of information, credit ratings, bankruptcy laws, insolvency resolution, protection of minority investors, and contract enforcement, among others.	High/ Medium to Long Term	Government Officials/ International Experts
VIII. Education Program	(i) Educate potential market participants (supply and demand) on the importance of a securities market for the country's development, public sector financing and private sector growth.	Medium/ Medium to Long Term	Government Officials/ International Experts
IX. Offloading shareholdings in selected companies in the corporate sector	(i) Sell government stakes in some enterprises (Belize Telemedia Limited, Belize Electricity Limited and the Belize Water Services Limited) to help the development of an equity market.	Medium/ Long Term	Government Officials

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List of Institutions Visited

The consultant met with officers from the following institutions:

1. Central Bank of Belize
2. Inter-American Development Bank
3. Belize Chamber of Commerce & Industry
4. Grant Thornton
5. Courtenay Coye LLP
6. Baker Tilly Hulse
7. Atlantic Bank
8. Belize Bank
9. Heritage Bank Limited
10. PPF Capital
11. Office of the Supervisor of Insurance