

TC Document

I. Basic Information for TC

▪ Country/Region:	BELIZE
▪ TC Name:	Digital Transformation for Improving the Business Climate for MSMEs in Belize
▪ TC Number:	BL-T1129
▪ Team Leader/Members:	Grant, Kayla Sharee (IFD/CTI) Team Leader; Vasquez Rossi, Maria Ines (IFD/ICS) Alternate Team Leader; Balani, Hero Ranjit (CID/CBL); Bryant, Alexis (CID/CBL); Genesis Morales (IFD/CTI); Gilles, Aurelie Flavy (CID/CID); Lunstedt Tapia, Christian (VPC/FMP); Maria Alejandra Galeano (IFD/CTI); Sanmartin Baez, Alvaro Luis (LEG/SGO); Sierra Liranzo, Mayrett (IFD/CTI); Solis Ahumada, Galileo Humberto (IFD/CTI); Wade, Henry Gilbert Jr.
▪ Taxonomy:	Operational Support
▪ Operation Supported by the TC:	BL-L1039
▪ Date of TC Abstract authorization:	23 Mar 2022
▪ Beneficiary:	Belize
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Institutions(W2C)
▪ IDB Funding Requested:	US\$200,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	
▪ Types of consultants:	Firms
▪ Prepared by Unit:	IFD/CTI-Competitiveness, Technology and Innovation Division
▪ Unit of Disbursement Responsibility:	CID/CBL-Country Office Belize
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	Yes
▪ Alignment to the Update to the Institutional Strategy 2020-2023:	Gender equality; Institutional capacity and rule of law; Productivity and innovation

II. Description of the associated loan

- 2.1 The objective of this project is to strengthen the Government of Belize in simplifying the delivery of a broad range of prioritized public services thereby establishing a foundation for effectively leveraging digital technologies to facilitate innovation and competitiveness amongst Micro, Small and Medium Enterprises (MSMEs). This Technical Cooperation (TC) will complement the objective of the loan under preparation “Digital Innovation to Boost Economic Development in Belize”, whose objective is to boost the economic productivity of Belizean MSMEs. The specific objectives of the loan program are to: (i) increase use of digital solutions by MSMEs to promote firm growth; and (ii) improve the supply and access to digital services for

MSMEs. Specifically, this TC will supplement digital transformation efforts by addressing the following identified gaps: (i) drafting of legislative reform measures that will support the simplification of the regulatory environment for MSMEs; (ii) build the institutional capacity of the Government of Belize to coordinate, monitor and evaluate a set of digital transformation interventions that will strengthen the innovation and entrepreneurship ecosystem towards supporting the growth of MSMEs; and (iii) a gender sensitized communication strategy for promoting awareness and the uptake of the proposed digital interventions under the loan program. All project activities will be gender sensitized.

III. Objectives and Justification of the TC

- 3.1 MSMEs¹ are critical to creating jobs and reducing poverty within the Belizean economy yet MSMEs face multiple challenges in doing business. Starting a business is costly and complex. Belize's 2020 Doing Business rank for starting a business, was 166th (a decrease from 161st out of 190 economies in 2018) taking 48 days (an increase from 43 days in 2018), consisting of 9 procedures, and costing 34.3% of income per capita. Informality continues to be a challenge and the distribution of micro, small, medium, and large firms has shifted, reflecting the impact of the pandemic. The share of micro² firms jumped from 76% in 2016 to 85% in 2020. Among the 13 countries surveyed by the Innovation, Firm, Performance and Gender (IFPG) survey,³ Belize ranks 10th in reporting innovation activities compared to top performers such as Antigua and Barbuda (44%) or the Caribbean average of 24%. Evidence⁴ demonstrates that digital

¹ In Belize, Micro, Small and Medium Enterprises (MSMEs) are defined under the following categories: micro (less than 5 employees, less than BZ\$100k in annual sales, and less than 50k in investment); small (5-19 employees, less than BZ\$500k in annual sales, less than 150k in investment, and manufacturing space less than 4004 sq ft); and medium (20-50 employees, less than BZ\$1.5 million in annual sales, less than BZ\$500k in investment, and less than 5995 sq ft of manufacturing space). Over 90% of Belize's private sector is considered MSMEs.

² Although the legal definition includes additionally the sales criteria, where micro firms should also report sales less than BZ\$100k, small firms should report sales smaller than BZ\$500k and medium firms report sales smaller than BZ\$1.5M, we use only the employment classification for the sake of comparison between 2016 and 2020 enterprise surveys. The 2020 version of the enterprise survey did not gather sales information.

³ The IFPG firm level dataset is part of a Caribbean-wide initiative that collected information from representative samples of business establishments in 13 Caribbean Community (CARICOM) countries, including Belize, in order to enhance the understanding of the main issues affecting the competitiveness of the region's firms, and develop better instruments to support private sector development in the Caribbean. The IFPG gathers internationally comparable firm-level data on innovation, use of digital technologies, firm performance, gender, business management practices, and post-COVID-19 impact the following Caribbean Countries: Antigua & Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Lucia, St. Kitts & Nevis, St. Vincent and the Grenadines, Trinidad & Tobago and Suriname.

⁴ One study (McKenzi 2021) finds that digital training programs have a 5% impact on sales, with other studies (Voillaz 2018) estimating a 25% impact on value production. Banay, Lang, and Nagy (2017) find that non-reimbursable Information and Communication Technology (ICT) subsidies issued to 1,428 companies resulted in an increase in their sales, revenue, profit margin, number of employees, tangible assets and labor productivity.

technology drives innovation⁵ and improves business performance in terms of sales, employment, and productivity. Nevertheless, firms lack knowledge about the technologies available that can improve productivity and competitiveness (information asymmetry).

- 3.2 Good business environments have been found to stimulate investment in innovation,⁶ a key variable for productivity. Digitalizing government services can improve the business environment. Yet in Belize, digitalization of government services has been slow and fragmented resulting in high government transactions costs for MSMEs. Information on government services is scattered throughout different sites, outdated or non-existent online. Belize performs well below LAC averages in most world rankings related to digital transformation. Although wait times are shorter when applying for government services in the Caribbean compared to Latin America (4.3 hours per transaction in the Caribbean versus 5.3 hours in Latin America), Caribbean countries are nevertheless burdened with having to return to public offices repeatedly (over 30 percent of transactions require three visits or more). The 2020 E-Government Development Index ranks Belize 136 out of 193 United Nations (UN) member countries performing less than the regional average and declining in its ranking compared to previous years. Governments face the challenges of limited institutional capacity and human talent needed to drive digital transformation⁷ a regulatory framework that is not agile and does not keep up with the speed of digital change and which impedes the process of developing, testing and adopting new technological applications. This TC seeks to address the prior to challenges through the proposed activities detailed in Components 1 and 2.
- 3.3 Given the important role of the private sector in a post-COVID-19 recovery, fostering a business climate that enables private sector development with a focus on MSMEs and building the institutional capacity of the public sector to support digital adoption amongst the private sector is a top priority being pursued by the Government. Belize has made some strides toward establishing the necessary foundation for a strong business climate. Under the TC “Leveraging Digital Technology for Improving the Business Climate in Belize” ([ATN/CO-16736-BL](#)), the Belize Companies Registry (BCCAR) was digitized and legislation to support the Government and private sector in operating in the digital economy was drafted and submitted to Parliament. These legislations include the Data Protection Act and the drafting of the Public Sector Data Sharing Act, the Electronic Transactions Act, the Digital Signature Act, the Electronic Evidence Act, and the Electronic Funds Transfer Bill. Under the “Strengthening Public Expenditure Management in Belize” ([5353/OC-BL](#)), the Government of Belize has

⁵ Studies referenced include Goldfarb and Tucker (2019). Hallward-Driemeier et. al, (2020). The National Research Council Canada (2013).

⁶ Blagova et. al, (2014) find that a good business climate stimulates investment in innovation in Eastern European countries. Similarly, they find that the effect of a better rule of law is associated with increases of 47 p.p. in the probability of innovating products. See [M&E](#).

⁷ IDB (2022). [Digital Transformation and Public Employment: The Future of Government Work](#).

introduced a tax administration reform. The Government of Belize approved the National Digital Agenda in December 2021 which establishes the country's vision to become a digital economy. The recently created E-Governance and Digitalization Unit is leading its implementation. Finally, the Government of Belize established the National MSME Initiative Working Group charged with coordinating a strategy where doing business in Belize is simple, digital and quick. On June 24, 2021, Government of Belize organized a webinar to explore the need for reform to boost private sector development in Belize. There was a consensus at political and technical levels on the path ahead: (i) the benefits of innovating to promote private sector development in Belize with a focus on regulatory simplification and digitalization of procedures; (ii) exploring reform with a focus on facilitating doing business by eliminating red tape regulation and digitalizing public services to boost job creation in the private sector and poverty reduction in Belize; and (iii) how to spread the word on the reform ahead.

- 3.4 **Strategic Alignment.** This TC is consistent with the Second Update to the Institutional Strategy (AB-3190-2) as it is strategically aligned with the development challenge of productivity and innovation, specifically addressing the special needs of small and vulnerable countries in fostering development through the private sector. It is aligned with the cross-cutting issues of: (i) Institutional capacity and the rule of law given that the TC will be providing support capacity building support to the Ministry of Finance, Economic Development and Investment (MFEDI), the Belize Trade and Investment Development Service (BELTRAIDE), and the E-Governance and Digitalization unit; and (ii) Gender equality given that the proposed legislation and awareness campaign to be financed by the TC will be gender sensitized ion. The TC is aligned with the priority area of Effective, Efficient and Transparent Institutions of the Ordinary Capital Strategic Development Program (GN-2819-14), that has as expected results to achieve the following objectives of the priority area: (i) strengthen institutional and policy quality as well as service delivery and policy implementation, to improve public sector management and promote private sector development, and (ii) leverage digital transformation to promote more effective, efficient, and transparent governments, better and more equal opportunities for citizens, and more productive and innovative firms given the TCs focus on building institutional capacity for adopting digital technology. This program is aligned with the 2022-2025 Country Strategy for Belize (GN-3086) in the priority area of private sector productivity and sustainable growth with a focus on MSMEs. Regarding the IDB's Corporate Results Framework 2020-2023 (GN-2727-12), the development challenge of productivity and innovation will be addressed through efforts to improve the business climate for MSMEs by promoting digital transformation. Finally, the proposed activities support the following priorities of the IDB's Vision 2025: (i) the digital economy as it relates to improving digital culture and awareness; and (ii) support to MSMEs as it relates to the design of proposed policy measures that can be implemented to support MSMEs in successfully conducting business in the new normal.

IV. Description of components and budget

- 4.1 **Component 1. Regulatory Drafting to Simplify the Rules for MSMEs (US\$100,000).** This component will build on regulatory analysis work undertaken under BL-T1119 to finance the following activity which will help to develop a more agile regulatory framework for keeping up with digital change: (i) drafting of an innovative and gender sensitive legislative reform that would improve the ease of doing business for MSMEs in Belize; (ii) hold workshops with a sample of selected stakeholders in the private and public sector to validate the proposed legislation, coordinate roles and responsibilities, and to assess its impact on MSMEs; and (iii) propose recommendations and for next steps required to implement the legislation, including coordinating key actors critical to the successful roll-out of the legislation in Belize.
- 4.2 **Component 2. Training, Communication, Smart Monitoring, and Evaluation (US\$100,000).** This component will finance activities to improve the institutional and human talent capacity for driving digital transformation that will support the implementation of the “Digital Innovation to Boost Economic Development in Belize” program. It also seeks to promote the uptake of program activities proposed. Outputs include: (i) design of a digital smart monitoring, evaluation, accountability, learning, and stories (MEALS) system that builds the institutional capacity of the MFEDI, BELTRAIDE, and the Unit of E-Governance and Digitalization Unit to coordinate, monitor and evaluate a set of digital transformation interventions that will increase use of digital solutions by MSMEs to promote firm growth and improve the supply and access to digital services for MSMEs; (ii) a workshop on design, project management, and operational strategies for implementing digital innovation programs. It is expected that the workshop will improve the capacity of the MFEDI, BELTRAIDE, and Unit of E-Governance and Digitalization Unit to deliver the proposed digital interventions under the loan program; and (iii) a gender sensitized stakeholder sensitization strategy for promoting awareness and the uptake of the proposed digital interventions under the loan program. Workshops and training will be coordinated with the intended beneficiaries, the Country Office in Belize and other IDB projects and program and local donors supporting said institutions.
- 4.3 The total budget of the TC is US\$200,000, and will be financed by the Window 2, Priority Area 3: Effective, Efficient and Transparent Institutions (W2C) of the Strategic Program for Development financed with Ordinary Capital (OC-SDP). Local counterpart funding is not foreseen.

Indicative Budget

Component	Description	IDB (Total)
Component 1. Regulatory Drafting to Simplify the Rules for MSMEs	Legislation drafted and workshops implemented	US\$100,000.00
Component 2. Training, Communication, Smart Monitoring, and Evaluation.	MEALS system design, communications strategy, and training workshops delivered	US\$100,000.00
TOTAL		US\$200,000.00

V. Executing agency and execution structure

- 5.1 **Executing Agency (EA).** This TC will be executed by the Bank through the Competitiveness, Technology, and Innovation Division (IFD/CTI). As per the country’s request, the Bank will execute the TC. In line with the Annex II of the Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4),

the Bank has demonstrated its ability to coordinate and motivate actions across diverse stakeholders at the national level. Furthermore, the request is justified given that, as an operational support TC, there are advantages in concentrating the management of consultancies and studies in the hands of the same team responsible for the preparation of the lending program in the Bank. This is necessary given the requesting entity has limited technical, operational and institutional capacity to duly and timely execute the activities provided in the respective project. The IDB will engage directly with the Ministry of Finance, Economic Development, and Investment of Belize (MFEDI, the EA for the loan program) to support digital transformation and institutional capacity building projects. It will also engage directly with the Technical Units of the “Digital Innovation to Boost Economic Development in Belize” program which include the BELTRAIDE⁸ and the E-Governance and Digitalization Unit.⁹

- 5.2 **Procurement.** The Bank will hire the services of individual consultants and consulting firms in accordance with its policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-4 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature; and (c) GN-2303-28 for logistics and other related services. The single source selection (SSS) methodology is proposed for the consultancy to conduct legal drafting to simplify the rules for MSMEs. The proposed consulting firm is gf Consulting. The SSS request is justified given that the task represents a natural continuation of previous work carried out by the firm directly for the Bank under the “Action Plan C&D” ([ATN/OC-18524-BL](#)); and “Leveraging Digital Technology for Improving the Business Climate in Belize” ([ATN/CO-16736-BL](#)) where the firm supported and provided strategic inputs to a Working Group in Belize aimed at driving the modernization and simplification of legislation essential for improving the business climate for MSMEs operating in Belize. Specifically, the consulting firm held consultations with members of the Working Group, conducted a cursory legal analysis, and proposed initial recommendations for next steps. Thus this firm is uniquely positioned to provide continued services.
- 5.3 **Execution period and unit of disbursement.** The execution and disbursement period are expected to be 24 months. The UDR will be the Country Office Belize (CID/CBL).

VI. Major issues

- 6.1 A major risk is political commitment to implementing the recommendations developed under this TC. To mitigate as such, the project team will collaborate closely with the

⁸ BELTRAIDE is a national economic development agency responsible for Belize’s national Investment Promotion Agency, and Export and Trade Promotion Agency, and is focused on Micro, Small and Medium Enterprise (MSME) Development, Innovation, Entrepreneurship, and delivery of industry specific training. These functions are carried out by the four sub-units of BELTRAIDE namely: (i) BelizeINVEST, (ii) EXPORTBelize, (iii) Small Business Development Centre (SBDCBelize), and (iv) Belize Training and Employment Centre (BTEC). The administrative and corporate functions are also complemented by the Marketing and Information Unit, a Projects Unit, an Information Technology Unit, a Finance Unit as well as Administration and Human Resources.

⁹ The E-Governance and Digitalization Unit was created in 2021 and is mandated to lead the reengineering and digitalization of new government processes that benefit firms and citizens, as outlined in the national Digital Agenda for Belize.

Working Group to co-collaborate and advance key reform measures. The Working Group is a project committee with key public stakeholders who realize the benefits of the project and thus have incentive and agency to sustain momentum. Nevertheless, it will be important for the committee to expand its inclusion to incorporate private sector actors and other organizations in the ecosystem that are working on this topic. this TC will be strengthening the monitoring and evaluation capabilities of the EA and its technical units proposed for implementing the loan program “Digital Innovation to Boost Economic Development in Belize”. In this vein, the TC will support selected institutions to build a culture to become more competent and confident in employing digital technological innovation.

- 6.2 Finally, a key lesson learned under the ATN/CO-16736-BL is the importance of communication to ensure that clients, users, and beneficiaries understand the long-term benefits of legislative reforms and corresponding use of digital technology. Identifying and empowering change leaders is necessary to support an ongoing process of improving and innovating processes.

VII. Exceptions to Bank policy

- 7.1 There are no exceptions to Bank policy.

VIII. Environmental and Social Strategy

- 8.1 This TC will not finance feasibility or pre-feasibility studies of investment projects or associated environmental and social studies, which is why it does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).

Required Annexes:

[Request from the Client - BL-T1129](#)

[Results Matrix - BL-T1129](#)

[Terms of Reference - BL-T1129](#)

[Procurement Plan - BL-T1129](#)