

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BELIZE

Trade and Investment Facilitation Program for Belize
(BL-L1040)

Demand Analysis

Contents

Objective	3
1. Background: Firms in Belize	3
2. Digital Technology Usage amongst Firms in Belize.....	6
3 Demand for Investment Facilitation and Promotion	9
4 Demand for Export Facilitation.....	11
Conclusions.....	12

Objective

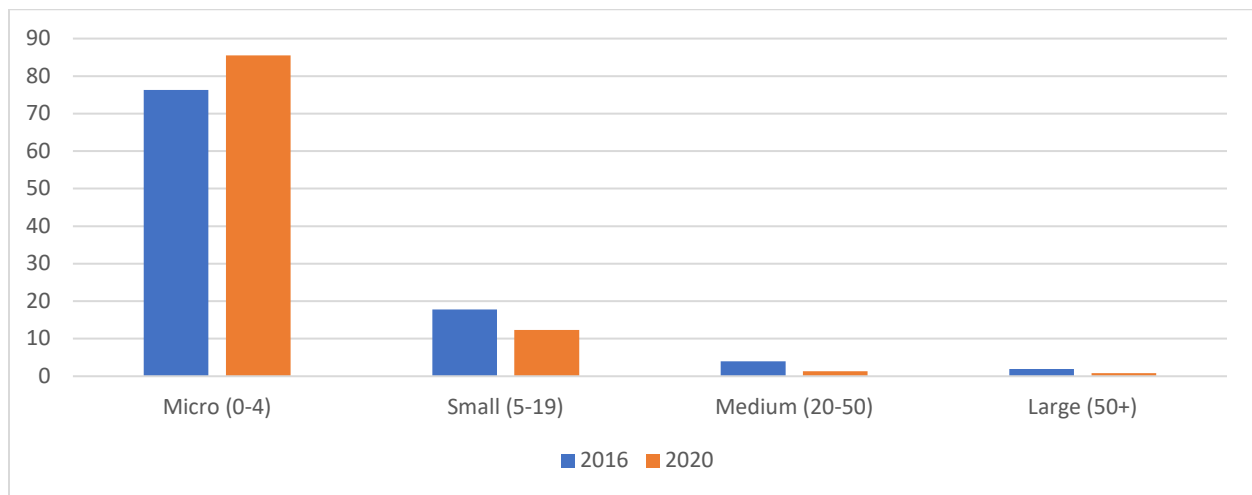
The primary purpose of this document is to identify the potential demand for the various streams of activities being proposed by the loan. Assessing demand for the proposed activities enables the design of more targeted and effective engagements with relevant actors. The analysis draws on surveys, the meta-analysis of studies pertaining to the exporters and investors, and on evidence signaling the effects of trade facilitation initiatives and investment promotion on trade and investments flows. Ultimately, the evidence shows the potential for strong demand for the proposed activities of the loan. Emphasis must be placed on improving firms' awareness of the types of technical assistance and grants that will become available through the loan and must engage in targeted sensitization efforts that improve knowledge and understanding of how trade facilitation and promotion activities can benefit companies and how they can be supported in submitting quality applications to such programs and in managing the reporting requirements of participating in such programs. Pro-active engagement and approaches for matching supply and demand should furthermore be pursued.

1. Background: Firms in Belize

Well over 90% of Belize's private sector is considered an MSME. The share of micro¹ firms jumped from 76% in 2016 to 85% in 2020, reflecting the impact of the pandemic in terms of the distribution of micro, small, medium, and large firms (see Figure 1). MSMEs generate over 70% of private sector employment and incomes. MSMEs, especially micro and small firms and women-led firms, operate in a complex, challenging innovation and business climate. Starting a business is costly and complex. Informality continues to be a challenge, with 69% of Belizean firms indicating facing

¹ Although the legal definition includes additionally the sales criteria, where micro firms should also report sales less than BZD\$100k, small firms should report sales smaller than BZD\$500k and medium firms should report sales smaller than BZD\$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.

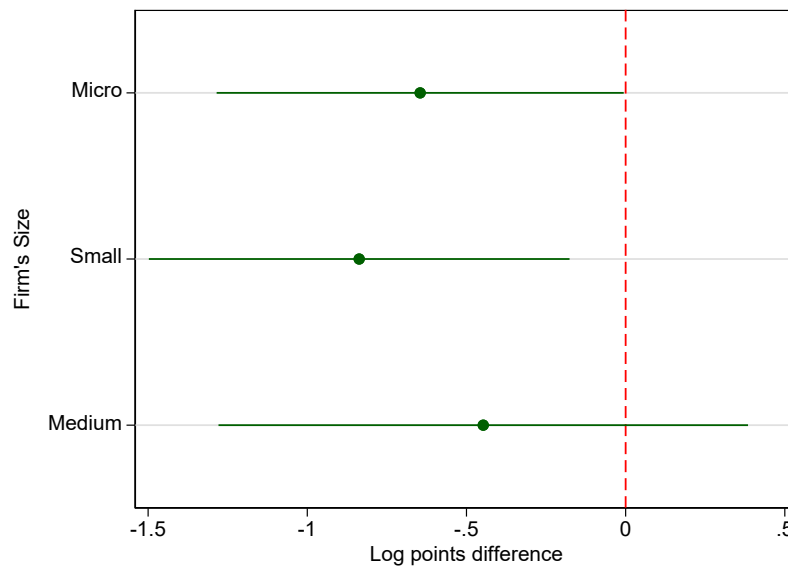
Figure 1. Firm distribution by employment size



Source: Calculations based on 2016 and 2020 Enterprise Surveys

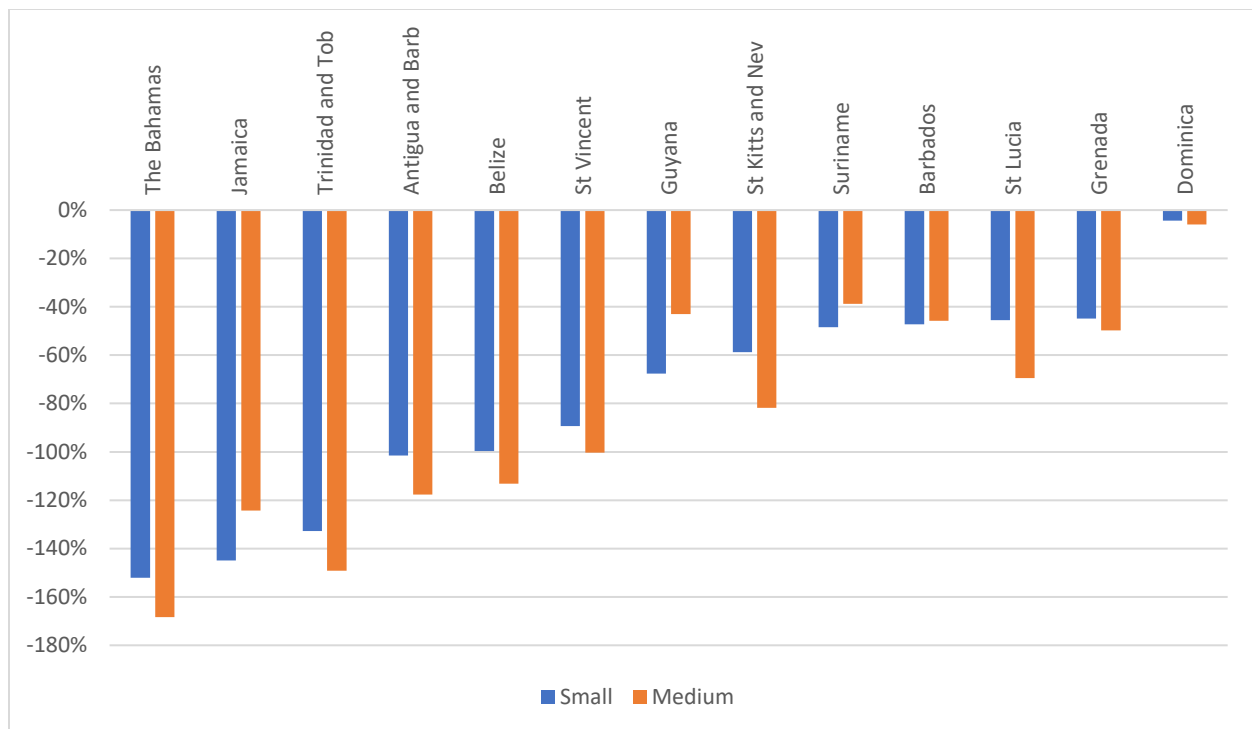
Productivity, an important input for long term economic growth, continues to decline. The average firm productivity (measured as sales per worker) in 2016 was BZD\$21k per worker. Compared to the group of large firms, MSMEs are considerably less productive, revealing severe productivity gaps by firm size. Micro firms are 68% less productive than large firms, small firms are 80% less productive, while medium firms are 48% less productive compared to large firms. Data from the IFPG survey from 2020, though it does not sample the group of micro firms, confirms the same productivity gaps for small and medium firms with respect to large firms. Small Belizean firms are 100% less productive than large firms, while medium firms exhibit an even larger gap of 113% with respect to large firms. Among the 13 countries surveyed by IFPG, Belize ranks 5th as the country with the largest productivity gap between small and large firms.

Figure 2. Productivity gap by firm size before COVID-19: reference group is large firms



Source: Based on 2016 Enterprise Survey calculations

Figure 3. Productivity Gap



Source: Calculations based on 2020 IFPG Survey

2. Digital Technology Usage amongst Firms in Belize

The development of information technologies and the capacity to adapt such technologies to enhance firm performance is at the core of modern private sector development. Classifying the digital transformation as part of a broader industrial revolution is a common practice in the current literature. The Economic Commission for Latin America and the Caribbean (ECLAC) recently published a bulletin² that focuses on the trade, transport, and logistics aspects of the digital transformation. This report concludes by providing a roadmap that highlights the importance of:

- Reducing human interaction by employing digitization and process automation.
- Information and its analysis as an asset.
- Strengthening interoperability (nationally and sub-regionally) and integration of technological solutions.
- Developing IT systems that add value and affect positively the efficiency of processes.
- Taking advantage of international standards and best practices in digitization efforts.

Moreover, the Latin American Economic Outlook 2020 (LEO2020) prepared by the Organization for Economic Co-operation and Development (OECD) stresses the importance of the digital transformation for “*Building Back Better*”. The report focuses on the role of digital transformation as a tool to foster development in the region. It emphasizes the need for a multi-stakeholder approach to reap the benefits of the digital transformation. All policy actions aimed at improving the digitalization efforts in a country must be coordinated under national development strategies with a direct link to digital agendas. Furthermore, according to the LEO2020, the region of Latin America and the Caribbean needs to coordinate digital policies at the international level to overcome digital transformation challenges that transcend national borders.

The COVID-19 crisis created an unprecedented acceleration in the digitalization process in all countries but is also increased the challenges for communities with low technology access. A study by McKinsey based on a Global Survey of executives points out that their companies have accelerated the digitization of their customer and supply-chain interactions by three to four years and their share of digitally enabled products has accelerated by seven years. Firms need to focus on new digital strategies and practices to stay competitive in the current economic environment, and micro, small and medium enterprises (MSMEs) are no exception. The current context places digital technologies at the center of most business interactions. Having access to technology plays an important role in business development while having limited access to technology is correlated, at the firm level, with lower productivity. The ability of the Caribbean private sector to innovate through digital transformation will determine the pace of economic reactivation after COVID-19 as well as short-term and future competitiveness in the region. This applies even to companies in the Caribbean traditional sectors such as agriculture and tourism, which for the past few years have been disrupted by big data, artificial intelligence, robotics and internet of things and the digital revolution in marketing and logistics.

² See Bulletin 381 Facilitation of Transport and Trade in Latin America and the Caribbean.

While the importance of digitalization nowadays is common knowledge, there is a lack of studies that use micro data to provide a profile of firms that engage in digitalization efforts or to assess the relationship between such efforts and their productivity in the LAC region. This brief tries to narrow the existing knowledge gap by providing an overview of digitalization in MSMEs in Belize and their potential demand for digital transformation services.

During the months of June-November 2020, the Innovation, Firm Performance and Gender survey (IFPG) was conducted online for a random sample of formal firms in 13 Caribbean countries with the objective of gathering comparable firm-level data on innovation, use of digital technologies, firm performance, gender, and business management practices. Given the unexpected occurrence of the COVID-19 pandemic, the IFPG initiative extended its original reach to include information about the impact of COVID-19 on investment climate, marketing and sales, innovation, human resources, finance, and digitalization efforts.

The survey includes data on performance indicators, corporate governance, innovation, digital competencies, and resource management among other topics related to private sector development. The selection of firms in the final sample was done using a stratified random sample that generates a final data set that is representative at the country and two aggregated sectors: (1) mining and quarrying, manufacturing, aquaculture, and fishing; (2) and services, retail, arts and entertainment, office, and business support. It is important to note, that the services sector was divided into two sectors for the purpose of this brief. Given the importance of tourism-related activities and its potential as an engine of growth, we isolate all tourism-related industrial sectors into one, leaving the rest of firms classified under “*other services and retail*”.

The sample for Belize is represented by 157 firms that were surveyed during March and October of 2020. These are classified, according to their size, as: small (less than 20 employees; 68.8 percent³), medium (between 20 and 100 employees; 23.4 percent), and large (over 100 employees; 7.8 percent) firms. Firms whose top manager⁴ is a female were classified as women-led, and these represent 28.7 percent of the total number of firms in Belize, compared to only 24.1 percent in the rest of Caribbean countries from the IFPG sample (see Table 1). Finally, Belize is a country where firms in tourism-related sectors are overrepresented with respect to the rest of countries. The sector classification used throughout this brief, puts tourism services as a category representing 44.4 percent of the firms, followed by other services (40.9 percent) and manufacturing, mining and quarrying, with only 14.7 percent of the firms. This distribution contrasts with the one observed for the rest of the Caribbean, where the tourism sector accounts for only 22.3 percent.

³ It is worth noting that all proportions presented in this brief take into consideration the sampling design of the IFPG survey. While the sector classification used in this brief differs from the original stratum used, all the calculations use the medium weight estimation procedure for making inferences about the population. For further details on the sampling design and the weights defined for the survey, see the Survey Description and Technical Report prepared by EEC International.

⁴ We use the gender of the top manager instead of the gender composition of the owners/shareholders to get a closer sense of gender disparities of operating aspects within the firm (like digitalization).

Table 1. Sample Descriptive Statistics

	Belize	Rest of Caribbean
Number of firms	157	1,822
Statistical population	1,608	24,085
Firm size		
Small	68.8%	56.9%
Medium	23.4%	32.6%
Large	7.8%	10.5%
Gender		
Men-led	71.3%	75.9%
Women-led	28.7%	24.1%
Sector		
Manufacturing, Mining & Quarrying	14.7%	13.0%
Tourism related services	44.4%	22.3%
Other services (retail, arts, etc)	40.9%	64.8%

A natural starting point to assess digitalization among MSMEs in Belize is to know if they use basic technological tools to boost their sales, expand their reach or simply connect with customers and suppliers in an efficient way. The marketing and sales module of the IFPG survey enquires about the use of mobile phones, e-mail, social media, and a website. Table 2 shows how the mostly all (97 percent) Belizean firms use mobile phones for their operations. A slightly lower share of firms (94.7 percent) use e-mail to communicate with their clients or suppliers and even less use social media and a website for their operations (85.3 and 75.7 percent, respectively).

A positive result is that these proportions are higher among women-led firms. There is evidence that women usually run smaller firms and face larger obstacles regarding access to finance. These issues could affect performance if digitalization efforts were also lower amongst female managed firms. The use of social media and a website is greater than the average for women-led firms. This also holds for firms in the tourism sector, where 84.3 percent of the firms use social media and 30 percent uses a website. There is potential demand for a broader use of these digital tools.

The low proportion of firms' sales that were paid online could be the result of a lack of information or access. The survey explores whether firms know about different types of payment methods. While most firms have heard of mobile money, electronic payments (mobile phone or transfer services) and international processors, the proportion of firms that accept these types of payment methods is very low. The problem is not knowledge of the technological solution but its actual use.

Furthermore, only 4.7 percent of firms in Belize introduced innovations pertaining to online sales, compared to 10.1 percent for the rest of Caribbean firms. This result is aligned with the low proportion of sales that were paid online to Belizean firms that was highlighted above (Table 2). A deeper analysis on the root causes for this underuse is needed to design a proper solution that would benefit MSMEs in Belize.

However, there seems to be a better outlook within female-managed firms when it comes to training on digital competencies (45.7 percent versus 39.5 percent for male-managed firms) and providing equipment to fully deploy these competencies (29.8 percent compared to 27 percent).

After analyzing the potential benefits of introducing innovative solutions in marketing, the production process, or the organizational method, we now go further and explore the main challenges faced by the same sub-sample of innovating firms. We also assess if such challenges changed (in terms of ranking) due to the COVID-19 crisis. The set of obstacles to innovation activities used in the IFPG survey is comprehensive and is answered by all firms. However, the data behind Figure 11 is restricted to the sub-sample of firms that introduced any of the abovementioned innovations. This allows for a clearer picture of the situation faced by innovative firms in Belize.

3 Demand for Investment Facilitation and Promotion

BelizeINVEST promotes and administrate existing Fiscal Incentive (FI) and Designated Processing Areas (DPA) Concession Holders that remain under BELTRAIDE. Currently, BELTRAIDE has thirty-eight (38) active FI Concession Holders and forty 40 active DPA Concession Holders that it administrates investment incentives for under including the Customs ASYCUDA System.

BelizeINVEST team fostered in excess of one hundred and twenty (120) interests/queries as of April 30, 2022. The teams annual benchmark goals include leads in the sectors of Tourism, Light Manufacturing, with other priority investment sectors, particularly the Offshore Outsourcing sector. It has been noted that a substantial chunk of queries was general business establishment guidance inclusive of site selection and investment incentive facilitation.

Single Investment Window

Recommendation of Sectors, Subsectors and Municipalities that would be most suited for the Single Investment Window mapping.

The National Investment Policy & Strategy highlighted eight (8) pillars to position Belize as a competitive, robust and favourite investment hub in the Central America region by 2030.

BelizeINVEST made a list of the common bottlenecks identified by investors listed by importance. Some of the challengers faced by investors include but not limited to:

- Deficiencies in existing business incentives
- Slow and bureaucratic public processes, low responsiveness of the public sector towards the private sector.

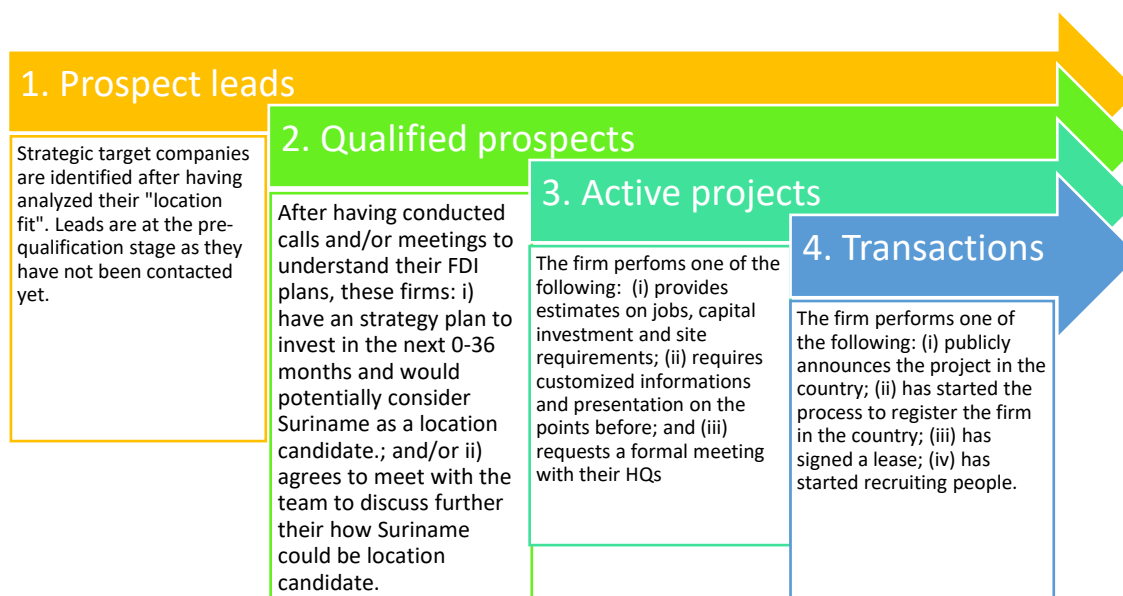
- Public physical infrastructure inadequate for optimal economic development
- Shortage of skilled labor
- Difficulties in accessing finance
- Small size of the economy, high delivery costs of public and private products and services
- High costs of doing business in Belize
- Weak R&D, innovation, technology transfer and technical capacity in Belize
- Poor national branding, external image of the country
- Small size of firms, low sophistication of products/processes

An online portal for the daily administration of duty exemption requests would be a great tool. Once completed, the team will explore the option to hyperlink our system with the Customs World ASYCUDA system for the importation of duty-free items. The Belize Investment Summit fostered in excess of BZD \$642 Million investment opportunities. The investment interest include leads in the sectors of Tourism, Light Manufacturing, Agro-Processing and Logistics with other priority investment sectors, particularly the Offshore Outsourcing sector. BELTRAIDE as the investment promotion agency will continue to promote the project opportunities generated at the first investment summit. Below encapsulates an overview of the project by sectors:

- Tourism Leads: BZD 21.10 Million
- Agribusiness and Agro-Processing Investments Leads: 126 million
- Fisheries Leads: BZD 9.6 million
- Light Manufacturing Leads: BZD 27.9 Million
- Logistics Leads: BZD 408 Million
- Real Estate Leads: BZD 25.5 Million
- Business Service Provider Leads: BZD 22.28

Promotion agencies have proved to be successful in attracting FDI (Volpe Martincus, Carballo, & Blyde, Forthcoming). Even if there is not an official definition of the investment process, we will base the indicators in the process developed by WAVTEQ pictured in Figure 3. The first stage (prospect leads) shows the success of the activities aimed to produce data analytics and identify potential investors in strategic sectors while developing and visualizing country information to allure firms. The second stage (qualified prospects) show the result of the services and follow up provided to targeted firms until they consider the country as a place to invest within the following 12 months. The third phase (active projects) is an advanced stage and reflects the support from the agency in providing potential investors with all the information they need in order to make a decision. Specifically, it is defined as when the firm: (i) provides estimates on jobs, capital investment and site requirements; (ii) requires customized information and presentations on the points before; or (iii) requests a formal meeting with their HQs. Lastly, the last phase measure the success in all the accompanying process (transactions); the firm has taken a decision and has performed either of the following: (i) publicly announces the project in the country; (ii) has started the process to register the firm in the country; (iii) has signed a lease; or (iv) has started recruiting people.

Figure 1. Process of an FDI project



Source: Based on Methodology for Overseas Business Recruitment (OBR) (WAVTEQ, 2018)

Note: Between prospect leads and qualified prospects, agencies engage in trade shows, rad show, FDI seminars, and conduct corporate calls and/or meeting with leads to understand their FDI plans. From prospect leads to active projects average time is 24 months; and them until it is considered as a transaction the average time is 12 months. In the case of developing countries, additional time can be considered. (WAVTEQ, 2016).

Taking into account that there are only 78 actual users of BELINVEST programs, seems plausible to expect an increase of by 650 following WAVTEQ's cycle and taking into account that developing countries require more time to concrete. Given that figures and following WAVTEQ's cycle we can estimate new establishments of 14 firms.

4 Demand for Export Facilitation

Given the information of section 1 of this demand analysis seems clear that there are a lot of room for incorporate new firms into international markets via the promotion and facilitation process. The number of potential actual companies that could receive supported by Beltraide is near 500. Its seems reachable a goal of achive slightly least of 10%, so reaching 40 companies participating.

Based on other international experiences (see the economic analysis), we expect for at least 50% of companies supported by Beltraide to achieve the outcome of having experience a first time exporter experience. This means 20 enterprises could have their first export experience.

If we want to see the number of companies that received support by Beltraide and that register having exported by the first time and that are led by women. Given the figures of section 1, we would expect that at least 5 enterprises of the 40 that start to export to be firms led by women.

Conclusions

It seems clear that there is enormous potential to be realized to the extent that work is done simultaneously on processes to facilitate and promote trade and investment, as well as to deepen the use of information technologies by companies in Belize.