

Turning the corner

Despite global conditions, Belize has weathered the storm and our economy is again on the right track. With a continued focus on poverty alleviation through social investment; job creation; enterprise development; growth in productivity; and safety and security, we can look forward to a better future.

Speech by Hon Dean O. Barrow, Prime Minister of Belize
Business Forum
November 23rd, 2011

I am pleased that today we gather to discuss how government and the private sector can collaborate in taking the necessary next steps to sustain economic growth in the immediate, intermediate and long term. This meeting comes as a follow up to several sessions that our policy team has had with select groups. But the invitation has been to the wider business sector, and I am happy to see a very representative attendance. During the consultations with the select group several issues emerged. These had to do with what was identified as current constraints on private sector, and general economic, progress. The idea is to discuss now ways in which these obstacles might be removed. But we also want to look at new modalities, arising as well principally from the suggestions made by those to whom we earlier spoke, for empowering business models and accelerating accommodation and facilitation on the part of Government and quasi-Government agencies.

In setting the stage for this forum that is overdue, it is fair to say that no Government of Belize has before been put into a situation where so much of its time and resources have had to be spent, including in Court, to recover or protect the assets of the country. This has been at a juncture when the economic crosscurrents caused by both external and domestic factors, would normally have required the full attention of the authorities just to keep the system up and running. Despite our preoccupations with defense of sovereignty and patrimony, however, we have been able to deliver on critical economic and social systemic tasks much more effectively than most of our neighbours. But of course, we too have suffered from the

management failures in the United States and the global crises these helped to cause.

Notwithstanding inherited circumstances and the dire world situation, then, Belize has not neglected the pressing domestic concerns. In fact, the development programmes and projects that are being implemented by this Administration since it took office in February 2008 have been unprecedentedly extensive. A booklet containing a list has been prepared by the Ministry of Economic Development, and will be distributed today.

Deservedly, our concentration on poverty alleviation, our bedrock pro-poor policies, has received much attention. But in a larger sense, this focus is also pro-business. First of all, these programmes are largely financed by external inflows. Then, as in the case of the Boost and the Pantry programmes, they result in provision of disposable income to people that will spend, not save. As well, by zero-rating and reducing duties on basic food and other necessary items, we have increased the demand for those products. In turn, this provides greater opportunities for local businesses to import, make and sell them. Most important of all, investment in the poor helps to reduce crime; and investment in education increases productivity.

Moving now to the particular areas of concern raised by our private sector interlocutors, the most significant were as follows:

- I. There is a perception of extensive tax evasion, particularly with respect to GST and Customs Duties. This, of course, leads to inequity, increasing the inability to compete on the part of those that continue to play by the rules.
- II. Violent crime, including murder and armed robbery, has reached the levels where it has added tremendously to the security costs of doing business.
- III. The Financial Sector operations need to be reviewed, with particular emphasis on interest rates, deposit rates and the excess liquidity in the system.

- IV. The road infrastructure requires urgent attention, particularly the main streets in Belize City and the roads that are critical for the movement of tourists.
- V. The absence of easily available, timely, and reliable statistics covering economic and social behaviour, particularly trade statistics, causes problems for business and investment planning. Ditto for the difficulty in obtaining public finances numbers.
- VI. The development concessions regime appears to be useful only to large businesses. As currently operated, the regime is too bureaucratic, time-consuming and expensive to be useful to medium and small enterprises.

At a more general level, there was clear indication of the need for improvement in the perception of the business climate.

Regarding this latter, there is an extent to which negative rhetoric has served to produce the very outcome it claimed to be warning against. And it was also clear that many of those consulted were not aware of the full extent of ongoing Government activity to address the country's development challenges. This is no doubt due to a failing on our part to disseminate that information. But it is precisely that sort of deficit that interactions like today's will help to correct.

Now if I could seek to address each of the listed areas in turn:

The GST and Customs Duties situations are obviously troubling. But you would be aware that a leadership change has already taken place at the GST Department, and that two compliance officers, recruited from outside the Department, have been in post for some months now. These moves are paying dividends, but additional effort has been under consideration and two proposals are currently on the table. One is intended to increase the flow of information from individual establishments to the GST office, while the other is intended to encourage the public to become involved in oversight operations. Ms Betty Ann Jones can talk more about them later.

With respect to the Customs Department, you know that the ASYCUDA World system is presently being installed, with financial support from CDB. We will need to establish how well that system works before embarking on any major new operation, although we are aware of the need to install container-scanning capability in the near future if we are to be able to continue to export to the US. We are also aware that implementation of the ASYCUDA project has been experiencing substantial delays, and we have commenced a detailed investigation to ascertain the reasons for the delay, and to accelerate implementation. Both the container-scanning operation and ASYCUDA will obviously change the structure and functioning of the Customs Department. The hope, and expectation, is that these developments will reduce the vicissitudes of the human factor and lead to better control of graft and corruption. Accordingly, the business playing field will naturally be more level as we succeed in eliminating the disadvantage to those that virtue now holds hostage. Operations in the Free Zone, the Export Processing Zones and general contraband control, must also receive closer scrutiny in order to complement ASYCUDA.

In respect to crime, there is now common knowledge of the multi-dimensional actions that we have already undertaken to address the situation. At one level, we are expanding the capacity of the Police Department through stepped-up training, and, with support from our development partners, a substantial supply of additional equipment, including full forensics analysis capacity.

At another level we have sought to engage all community stakeholders, including the gangs, in an ongoing lifestyle evaluation and assistance process. The effort to deal with youth and gang violence has yielded much success over the past three months. And while it has been a completely local initiative to this point, we have also signed on to a CARICOM pilot that should assist.

At still another level, RESTORE BELIZE is now fully operational; and with assistance from Dr Herbert Gayle in a consulting capacity, the programme is seeking to coordinate a number of Government

interventions that are intended to address the longer-term needs and aspirations of at-risk youth and their families.

At the heart of the overall response, of course, is the requirement to provide all members of the population with a reasonable expectation of a comfortable life, if they make the effort to help themselves. This necessitates an enabling environment that includes a sufficient number of primary school places, adequate opportunity for secondary, tertiary, and technical training, and a physically healthy environment and basic medical care. It also requires that opportunities exist for each individual to work and generate income. Again, the timeliness of this forum is apparent in seeking an expansion of the private sector level of economic activity. This will create a greater employment space, and opportunities for workers in addition to those produced by Government's job-creation efforts.

In respect to the financial infrastructure, ever since it took office the Administration has been concerned about the high levels of interest rates in the banking system, and the effect of those rates on the level of domestic business activity and export competitiveness. The expectation that the sharp decline in interest rates in Belize's main trading partners would have been reflected in similar decreases locally, has not been realized. There has been a great increase in domestic banking system liquidity as loan demand has dropped in response to declining aggregate demand. But this has not driven down lending rates to any significant degree. Indeed, while there has been an almost precipitous tumble in average deposit rates, average lending rates have fallen only marginally, benefitting the banks by way of larger interest rate spreads.

Before I tell you the details of the moral suasion that the Central Bank has been employing to deal with the situation, I should tell you that it has not been enough. Now I understand only too well the complexities of the situation and the limits of Central Bank power in an ultra-sensitive situation where none of our commercial banks is truly locally owned. And while I will not say that the banks in Belize operate in the fashion of a cartel, I will most assuredly say that more competition is needed. One step in that direction would be to turn the DFC into a full-scale national commercial bank, and Government will

shortly be appointing a committee to examine that possibility. The time may also have come to legislate a cap on interest rate spreads.

Meanwhile, though, and ever since the start of the economic slowdown, the Central Bank has been encouraging the commercial banks to work with their clients through this regionally and globally difficult period. Obviously, loan restructuring arrangements in an environment of very low international interest rates, high domestic rates, and excess and growing levels of liquidity, would require some burden-sharing all around. Thus, one would have expected that interest rate restructuring would have been part of new bank-client support arrangements. This would make both good banking and larger economic sense. After all some downward adjustment of lending rates, even if temporary, could mean the difference between a non-performing loan and one that is being serviced, albeit with difficulty. But the present stance of some of the banks is to insist that even the miserly decrease in interest rates that is extended to new loans, must be withheld from existing outstanding loans. It is a beggar-thy-customer policy that is not supportive of recovery and progress in the prevailing circumstances.

But the idea today is not to hector anyone. So I will merely make the following observation, using my best diplomatic-speak: Commercial banks may wish to use the current opportunity, in which methods of treating with poor-performing loans are being discussed with the Central Bank, to make meaningful proposals. Such proposals could include interest rate adjustment in the context of loan work-out approaches for qualifying borrowers.

While the Central Bank has been paying a great deal of attention to the stability and efficiency of banking and financial system operations, including the operations of the credit unions, it has not been neglecting its larger development functions. I therefore wish to report on two initiatives that are currently well under way. The first is, with assistance from the IFC, the establishment of a credit bureau. Details of the proposed arrangements will be made available for comment and discussion as soon as they reach an appropriate stage. The second initiative is the establishment of a national payments system

to facilitate electronic single-card funds transfers and business transactions throughout the country. This will reduce the need for cheques and cash, and for businesses to operate multiple card-swiping terminals. Again, external assistance is being provided.

Regarding our road infrastructure, there can be no question that the current condition of our streets and roads leaves a lot to be desired. But there is also a great deal that is being done. The Northern Road network is benefitting from much improvement under the EU funding connected to the Accompanying Measures for Sugar. Infrastructure can also be looked at under the Banana Belt Rural Development Initiative, and the bridges at Kendal, Mullins River and Middlesex have been or are being financed. One pesky little issue underlined in the discussions was the need for road-marking and edging. The Ministry of Works has already started with the Northern Highway in the vicinity of the Tower Hill sugar factory; and I promise to do something in the next few weeks with the stretch between Ladyville and Belize City.

In relation to the streets in our municipalities there is the World Bank Infrastructure Project that was to start this month, but which has been delayed some because of the usual nickel and diming of that august institution. However, major Southside operations are starting just about now in Belize City, and Northside drainage works will begin in January or February.

There is a broader issue I believe we should be looking at, and it is this: whether the appropriate technical and financial capacity to build and maintain streets and drains can optimally exist in each of our separate municipalities, or whether it ought to be centralized. While such a notion would appear to raise a question regarding the appropriate range and scope for local government activities, it is in fact entirely consistent with the contracting out of particular services, as in the case of garbage collection in Belize City. But that is perhaps a discussion for another time.

In relation to the general statistics and public finances data availability issues, I have asked the Government representatives on the Board of the Statistical Institute of Belize to get some action from the management of the SIB. Since private sector nominees are also

on that Board, there should be a consensus insistence on better. Of course, the compilers of the data have to depend on submissions from a number of agencies. But that has not stopped the Central Bank, for example, from producing monthly reports that are both comprehensive and fairly timely.

In relation to public finances, I have instructed the Ministry of Finance to prepare and circulate quarterly summaries. You should also be aware that, in keeping with the Regulations we promulgated under the Finance and Audit Reform Act, there are certain reporting requirements that will become obligations of the Minister of Finance beginning in 2012. Since taking office this Administration has actively sought to close the loopholes that permitted the very poor management of the public finances that was the norm in the past, and we have benefitted from a number of reviews of our public finances management and expenditure systems. Most important, perhaps, is the fact that we have recently requested a diagnostic of our taxation system, with a view to its simplification and rationalization. We, like you, are anxiously awaiting the outcome of that exercise.

In terms of the management of the public finances one important task is still to be completed, and that is the full integration of the public sector investment programming processes with the budget processes. This would allow public finances management as a whole to become explicitly focused on country development; and recurrent budgetary operations to be guided by the country's development needs, rather than being treated as a standalone annual exercise. This will require not only coordination between the Ministry of Finance and the Ministry of Economic Development, but also close cooperation between the Ministry of Economic Development and all the line ministries.

I have raised the development concessions issue with BELTRAIDE, and the new Board of Directors is streamlining and shortening the process. It will also be making recommendations for a specific Fiscal Incentive program to suit small and medium enterprises, and which will be more sector specific.

At a broader level there are three other issues I must address. The first issue has to do with the perception that has been expressed about an apparent absence of development planning and focus. The UDP Manifesto, issued prior to the 2008 elections, sets out a detailed programme that the Party intended to implement. This Manifesto had been developed following widespread consultations with the people, and came out of our own observations as we travelled the length and breadth of Belize. The Manifesto was not structured in the traditional form of a development plan since a party manifesto and a country development plan are two different documents and are intended for different audiences. Subsequently, however, the Ministry of Economic Development prepared and published a Medium-Term Development Strategy that drew heavily on the Manifesto, but which also took account of ongoing programmes, activities and challenges. This Medium-Term Strategy is what currently informs the Government's public sector investment programme. More recently, we have commissioned work on a longer-term development vision for the country, and we expect, beginning in the near future, to be able to use this Horizon 2030 as a basis for more detailed development planning. While all this has been in progress, the Government's Press Office has been keeping the nation informed, through special presentations and through the TV programme "Belmopan Weekly", about Government's accomplishments and activities.

The second issue is related to the first, and it has to do with the need for Government to enter into a more comprehensive ongoing dialogue with the private sector and for the establishment of a framework to address particular issues as they arise. We would expect a more general discussion at the policy level, while specific areas would be actioned by technical committees established for that purpose. It would be useful to have your views on how these arrangements could be structured.

The third and most important issue involves how we, all of us, go about the business of expanding production in, and exports from, Belize. For it is only through increased output and sales growth that we can hope to boost profits and boost employment and incomes.

Traditionally, the private sector has been the engine of growth, while the public sector has concentrated on providing the enabling environment in the form of the physical and institutional support infrastructure. Increasingly, however, based on some of the comments that are being made in relation to a need for more direction from Government, it appears that the paradigm may have to shift a little. The public sector may have to take more of a lead in identifying, marketing and bringing to fruition the business and investment possibilities that are likely to attract private sector interest. Thus, the Ministry of Foreign Trade, the Ministry of Economic Development and the Ministry of Agriculture will all have to step up.

The point is that Belize has much scope for innovation and non-traditional activity. I believe this is particularly so in agro-industry and services, especially business services. But if Government is to do more, the private sector will have to hold hands with us. Hopefully today is the start of a new joint enterprise. One where, among other things, you will help us to identify the new spaces and opportunities in relation to which Government and Public Officers can become more accommodative, more facilitative, more aggressively empowering of business and enterprise. So a clarion call needs to go out now. Attitudes must be changed; initiatives must be grasped; openings must be created. And Government must be ready to put in place the practical and psychological arrangements not just to buttress but to muscularize the private sector.

Of course, the foremost objective of Government is always improvement in the welfare and conditions of all Belizeans. So that benefits from the sustained business expansion that we now seek, should also be made to flow to the ordinary citizen, especially the poor. In this connection we rely on the fact that a rising private sector tide will inevitably float all boats. But we will ever want to ensure that output increase and productivity acceleration also bring specific and targeted advantages to those most in need. We know that you are one with us in that regard. After all, the business community in this country is well-known for its conscience and sense of social responsibility. I am happy, therefore, to conclude on a note of certainty that in all we do we will keep the least of our brethren well in mind.

I thank you.