FINANCIAL EMPOWERMENT – FINANCING A SUSTAINABLE LINKAGE

A paper contributed by the
Belize National Strategy Team

Introduction

Belize's technical contribution to the ITC's 2006 Executive Forum Global Debate briefly looks at the links between access to financing for Micro, Small and Medium Size Enterprises (MSME) and poverty alleviation and examines the financial schemes deployed in Belize and the Latin American and Caribbean Region to bring the poor and disadvantaged into the export process through specialized financing facilities.

The paper is structured as follows: Section II briefly looks at the link between access to financing for MSMEs, MSME involvement in trade and exports and poverty alleviation, examines the Micro-financing issues in the region and briefly reviews some of the mechanisms available. Section III looks at the Belizean context, but more specifically at the socio-economic realities and existing financing schemes. The last section concludes and offers recommendations.

Financial Empowerment

Access to financial services has long been considered an important aspect of development. More recently, emphasis, driven by the conscious actions of national governments, nongovernmental organizations (NGO's) and donor organizations, is being given to extending financial services to the poor.

The importance of microfinance[1] in the effort to reduce poverty is well established. The Brussels Plan of Action for Least Developed Countries (LDCs), for example recognized microfinance as particularly suited to support poverty alleviation efforts in Least Developed Countries. More recently, the UN endorsed the importance of micro-finance with the designation of 2005 as the international year of Micro-credit. In addition, the Heads of State gathered at the 2005 World Summit, officially the 60th High-level Plenary Meeting of the United Nations' General Assembly indicated its importance in the 2005 World Summit Outcome Document by stating:

> *"We recognize the need for access to financial services, in particular for the poor, including through microfinance and micro-credit". (paragraph 23(i))*

Proponents of microfinance and micro-credit provision as a development tool assert that it targets the world's poor and in the process empowers the disenfranchised, particularly women. "Finance affects poverty and income distribution through several channels, the first being economic growth, which raises overall income levels and helps reduce poverty. Empirical studies have demonstrated that a doubling of private sector credit to GDP is associated with a two percentage point increase in the rate of GDP growth. This additional growth in turn translates into lower poverty. Finance also helps reduce poverty through additional channels, specifically by reducing income concentration and enhancing income equality, leading to a further reduction in poverty".[2]

Much of the impetus behind this large and increasing support for Financing and Financial Empowerment hinges on the assumption that the economic and social impacts are significant. However, despite immense enthusiasm across the global political spectrum, some familiar with the movement also question the viability of microfinance as a strategy to reduce poverty and empower beneficiaries. "Concerns generally center on the structure and mechanisms heavily promoted in providing financial resources and managing programs".[3]

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[1] Refers to more than micro-credit or provisioning of small loans to the poor on favourable terms; Microfinance includes micro-credit but also small scale services such as credit cards, specially designed saving programs and access to remittances.
[2] Classens, S., Kranz, N., Finance Matters for Poverty Reduction and attaining the MDGs: Recent Empirical Evidence, Microfinance Matters, Issue 16, United Nations Capital Development Fund, September 16, 2005.
[3] Mcdormott P., Globalization, Women and Development, Microfinance and Factory Work in Perspective, LBJ Journal of Public Affairs, Spring 2001.

This argument appears especially valid when applied to the relationship between micro-enterprises (usually poor producers) and their participation in the export markets. World trade is growing much faster than world gross domestic product, which means that growth opportunities are typically greater for exports than they are for domestic sales. As such, instruments that promote financial empowerment of the poor must consider and ensure linkages between poor producers and their access to export markets. The ITC asserts however, that in the current financing movement, even where private firms, NGOs and development agencies have intervened to develop entrepreneurial capacity in poor communities (including the provision of access to financing and financial services), the potential for further expanding that capacity by linking production to export is rarely tapped[4].

Linking the production capacity of the poor to export markets

The ITC postulates that there are a couple of options for linking micro-enterprises and producers in poor communities to export markets[5]. These are:

1. Export Production Villages/networks: This involves organization of poor producers to produce final products that are marketed and distributed under contract by an exporter who is well established in the relevant export markets. The exporter buys a certain volume of production at pre-established quality standards and price and in return the exporter provides logistical and marketing services to the producers and keeps the producers aware of changes in demand, price, quality, etc in the export markets. This relationship can be enhanced if the exporter (either a private trading house or an export development corporation) is willing to make a deeper commitment to the exporters through investments in equipment, training, raw materials or providing credit to the producers.

The BTB's Toucan Trail – Linking Poor Producers to Export Markets

The Toucan Trail was established in Belize as an e-marketing tool for micro-operators in the hotel and accommodations industry in response to repeated requests for assistance from a wide cross section of the industry. **U**nder the Toucan Trail model, the Belize Tourism Board (BTB), the parastatal regulator for the Tourism industry finances and maintains an e-market place for the smallest players in the Belize Hotel Industry, who ordinarily would not have the resources to reach their markets. The marketplace allows the *demandeurs* to appreciate the diversity of the tourism product on offer and the suppliers to reach the export markets they cater to.

Inclusion in the Toucan Trail is free and is available only to small i.e. less than ten room hotels and bed and breakfasts. The participants are required to maintain high standards and a commitment to quality and are required to sign an agreement with the BTB attesting to this. The site contains innovative features such as a photo gallery, local recipes and a post card purchase and delivery facility, and provides a district by district breakdown of all participating hotels. Although individually marketed, the participants are also marketed collectively under the theme Socially Responsible Travel, which affirms Belize's commitment to its Market positioning as an eco-tourism destination and to maintaining the delicate balance between conservation and tourism.

The Toucan Trail model is one which finances a key component of the product value chain and links the final 'product' of a network of poor service providers to an export medium who finances the marketing and technical support and who is best suited and most familiar with the export markets. In place since 2005, the Toucan Trail according to the BTB is an unqualified success.

2. Subcontracting: a community of producers provides semi-finished products that are further processed (typically into agricultural or industrial products) before trade on the export

[4] ITC's Export Led Poverty Reduction Programme (EPRP), Geneva 2001, pg.1
[5] Ibid, pg. 3, 4

markets. The producers are assisted with credit, marketing and market intelligence, and technical and engineering guidance by the exporters.

Subcontracting the Hot Stuff in Belize's Hot Pepper Sauce Industry

In recent years, Belize has become known for its hot-pepper sauces internationally. Despite the re-known for high quality hot peppers in color, size, shape, maturity, and aroma the hot pepper industry remained constrained by a lack of marketing, high capital costs including for labor and irrigation, limitations on access to credit and investment, and limited research and development. This has resulted in inconsistent levels of production over the years and between 2001 and 2003 production fell from a high of 817,519 lbs to 398,274 lbs.

In 2003 Marie Sharps – Belize's premier producer of hot-pepper sauces- successfully negotiated a supply contract with Wal-Mart. Around the same time, Chilly Willy's another hot pepper producer, successfully landed a contract to supply hot-pepper sauces into south Florida including to the popular La Carreta Cuban Restaurant chain. In order to address the deficiencies in hot pepper production and the constraints facing the industry, both hot pepper producers negotiated sub-contracting arrangements with local communities for the production and supply of fresh hot-peppers into the value chain. The local producers were given a guarantee that all the peppers produced (and which met the international standards) would be purchased. They were also provided with market intelligence and technical and engineering guidance to ensure efficient production strategies.

Similarly, in the north of the country Agro World Industries mobilized the communities of Chunox, San Carlos and Maskall for cultivation of hot peppers. These were then harvested and packaged for export sale to the USA fetching an export value of US$734,482.00 in 2003.

The producer-marketing arrangement has resulted in increased livelihoods for dozens of families and communities in the Corozal and Stann Creek Districts of Belize and has been a case of successful export basket diversification through value added production.

In both options a lack of access to credit is easily one of the greatest barriers to the smooth development and expansion of producer networks. While donor organizations may provide the seed and working capital at the initial stages, the growth and sustainability of poor producer networks depend significantly on access to credit or financing by exporters, formal micro-credit schemes developed by governments and grant/project funding from donor agencies.

To be sure, financial empowerment envisages much more than access to credit and financing. Besides understanding how to use credit and financing to earn or increase income through productive pursuits (whether in the domestic or export markets), financial empowerment also implies improvements in financial management capacity as the poor learn how to positively exploit access to a range of financial services, including loans, savings services, insurance and money transfers to build an independent resource base and ultimately improve their standard of living. Financing facilities that allow the poor to engage in the export process is a significant part of a "virtuous circle" of development that includes financial empowerment, poverty reduction and export development.

Financing for the poor in the Caribbean Region

In the Latin American and Caribbean Region, micro, small and medium enterprises (MSMEs)[6] constitute the majority of business firms and generate a significant amount of employment in their

[6] The definition of MSMEs vary from country to country in the region and sub-regions. In the Anglophone Caribbean region for example, a wide array of definitions exist some based on number of employees, others on revenue derived. According to Wenner and Chalmers, regardless of the criteria the majority of micro-enterprises in the region consists of "own account" operations with one owner-operator. In addition they exhibit a high degree of informality, a concentration in retail and services sectors, a tendency to be engaged in labour intensive, home-based production, a tendency to have a

economies.[7] In addition, according to the Inter-American Development Bank (IADB), the majority of the population of the LACA region lives outside of the financial mainstream. “Many of the region’s people have little familiarity with or trust in banks and their products, preferring informal, personal financial services. Most continue to use cash for daily transaction.”[8]

Against this backdrop, the microfinance industry in the LACA region has developed significantly in recent years; albeit more so in the Latin America than the Caribbean region. According to the IADB, the industry is estimated to serve more than five million individuals with an annual lending volume of about US $5 billion spread across NGOs, Credit Unions, government sponsored or owned specialized institutions (development banks, Export Development Agencies and foundations), Merchant Banks, Trusts and Finance Companies and Commercial Banks.

The region is also served by a number of multilateral and country financial institutions[9], who typically work through the established microfinance framework, either through grant, loan or technical assistance funding to reach poor producers. For example, the Inter-American Development Bank (IABD), a long supporter of micro-enterprise development has recently under its “Initiative to Reach those at the Base of the Economic Pyramid” emphasized “financial democracy” promoting access to credit for micro-business, as a priority area. The majority of the IADBs work in microfinance in the region involves strengthening NGOs involved in microfinance to transition to regulated and supervised Micro Finance Institutions. Current relevant projects include: Increasing Micro-credit access in Rural Populations in El Salvador, Deepening of Rural micro-credit in Honduras (assisting Asociacion Familia Y Medio Ambiente (FAMA) in the transformation to a regulated organization) and providing technical assistance to the credit union in Suriname to promote the delivery of microfinance mechanisms to the country’s poor.

USAIDs contribution to the region resembles that of the IADB and other multilateral organizations but suggests a greater emphasis on strengthening the link between access to financing and export markets. For example, USAID’s support for the Finance Alliance for Sustainable Trade (FAST) program, which creates partnerships among U.S.-based alternative lenders, socially responsible importers and roasters, and organizations that run independent, eco-labeling programs and social audits, such as Fair Trade certification, assisted in increasing timely access to financing for farmer cooperatives in Mexico and Costa Rica whose products are grown, harvested and processed in eco-friendly ways. In one collaboration promoted by FAST, EcoLogic Finance and the Calvert Foundation — which both run alternative investment funds — worked together in 2003 to structure investments that provided short-term trade credit to coffee producer organizations in Mexico and Costa Rica. According to USAID, in 2003, FAST helped 29 trade credit facilities in Latin America, including more than $5.7 million in trade credit to 18 different coffee farmer organizations. The program helped more than 4,000 small farmers improve their livelihoods.[10]

Also active in the region is the Republic of Taiwan through its International Cooperation and Development fund (ICDF). The ICDF provides credit to assist MSMEs in obtaining necessary funds to develop and increase competitiveness. The fund also cooperates with the IADB through its work with the Multilateral Investment Fund (MIF) to offer broader financial services for MSMEs in the region. The fund has initiated programs in micro-credit in St. Vincent and the Grenadines, St. Kitts and Nevis and Grenada and has provided funding for technical assistance in specific product enhancement projects in areas such as Rice, Aquaculture, and Tourism.

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significant percentage of female ownership, a tendency to serve primarily the domestic market, a small scale of operations and a low volume of sales., pg. 2

[7] Wenner, M., Chalmers, G., Microfinance Issues and Challenges in the Anglophone Caribbean, IADB Working Paper, IADB Sustainable Development Department, Micro, Small and Medium Enterprise Division, March 2001.

[8] http://iadb.org/bop/Area1_text.cfm?language=En&parid=2&item1id=2&item2id=2

[9] Only a few examples are used here to illustrate the point. There are significantly more agencies in the region than are listed here

[10] USAID website: www.usaid.gov/stories/archivelac.html

Belize's Country Situation[11]

Belize is the second smallest[12] nation in Central America and is located on the eastern Caribbean coast where it is bordered by to the North by Mexico and Guatemala to the South and West. With a territorial area of 8,867 square miles or 22,966 square kilometers, the dimensions of the country are approximately 260 kilometres/105 miles long and 180 kilometres/72 miles wide. Belize has a total population of 291,800 inhabitants (mid-2005 estimate) and has an average annual population growth rate of 3.15%. Life expectancy in Belize currently stands at 69.8 years of age with males (66.7) having a lower overall life expectancy than females (73.5).

Macroeconomic Framework

Belize's economy is characterized by its smallness, export-dependency and vulnerability to external shocks. The Gross Domestic Product[13] (GDP) of Belize in 2004 was estimated to be US$1.05 billion dollars. From 2001-2005, the Belizean economy experienced total annual GDP growth of 4.3% in 2001, 6.8% in 2002, 9% in 2003, 4.2% in 2004 and 3.1% in 2005. Per capita GDP growth was 1.2%, 3.5% and 3.4% between 2000-2003. This has reflected respectable economic growth rates, which can be attributed to continued growth in tourism and sub-sector rebounds in Citrus and Aquaculture exports. Exports, mainly agricultural commodities, fisheries and tourism, account for about 50% of GDP; the main export markets are the U.S. and the European Union (E.U.). Annual average per capita income is US$3,664.50 (2004 data). Inflation slowly but steadily rose between 2000-2004, and is currently at 3.7%[14] (2005 data). This is largely due to the inflationary pressures of the transportation and communications sector that is driven largely by considerable energy inputs.

The country's small domestic market and its growing involvement in regional trade blocs put severe limitations on import substitution possibilities[15]. Additionally, the need for relatively substantial and consistently available foreign exchange to pay the import bill creates a high dependence on export earnings which are usually derived from tourism and preferential quota-based agricultural commodities that are highly subject to external economic conditions. Exacerbating this in the short to medium term is that for local production, particularly manufacturing, to increase, there must be a short-term spike in imports of foreign machinery and equipment. As a result, Belize is highly dependent on foreign exchange earnings.

The country does not have an explicit national economic development plan but has had consecutive Medium-Term Economic Strategies since the mid 1980s. Belize's economic policy since entering the new millennium has focused on creating high economic growth through a program of fiscal expansion based on low taxes and high investment (World Bank, 2002). Presently, Belize is experiencing a severe fiscal dilemma characterized by unsustainable fiscal and external current account deficits, an extremely high level of public debt and political uncertainty[16] as to the scope, rapidity of implementation, and societal repercussions of the bundle of strategies required to reverse the problem. A significant contraction of the economy remains a critical concern. In 2004, the overall public sector deficit climbed precariously to almost 10% of GDP, the external public debt stood at approximately 100% of GDP and the external current account deficit grew to 10% of GDP despite income proceeds from ongoing privatization efforts.

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[11] Relies significantly on the forthcoming National Human Development Report for Belize due for Release by UNDP sometime later this year. Courtesy of Shaun Finnetty, Belicana Consulting and Development Limited.

[12] The smallest country in Central America is El Salvador

[13] Calculated at current market prices

[14] This is the highest level of inflation since 1996.

[15] In many developing countries where import substitution policies were put in place, the protectionist economic environment resulted in a national economy with highly priced inferior local goods while a parallel market in cheaper, non-domestically produced goods tended to flourish over time.

[16] A key international financial institution, the International Monetary Fund (IMF), has noted that "even in the face of an unsustainable fiscal and balance of payments position, it has proven difficult to build the necessary political consensus for adjustment" (IMF 2005, pg. 5).

The 2002 poverty estimates[17] indicate that 10.8% of the population was very poor or indigent while 33.5% were considered poor. The rate is much higher in the rural areas (44%) than the urban areas (24%). The highest amount of poverty was found in the Toledo district where 79% of the population was considered poor. The lowest was in the Belize district (24.8%). Children represented the highest rate of poverty when compared to any other group. The level of poverty among children was 39%, while the corresponding rates among the youth and elderly were 33.9% and 26.5% respectively. The working poor accounted for 29.8% of the labour force. At the household level, 7.5% were very poor and 24.5% were poor. The Mayas show up as the poorest ethnic group. Currently, the Government of Belize is in the process of preparing a National Poverty Elimination[18] Strategy and Action Plan 2005-2010 (NPESAP) which is designed to achieve MDG 1 and reduce extreme poverty in Belize by one-half by the year 2015.

The Finance Sector

The commercial banking sector is comprised of several multinational and regional banks that have expanding networks countrywide. The commercial banks in Belize can be viewed as “risk-averse” based on lending practices and biases toward certain borrower types. The commercial banking sector in Belize often lends to business ventures at interest rates in the vicinity of 15%-20% and with various additional fees being levied on lending transactions, obtaining commercial credit can be prohibitively costly for most small to medium enterprises.

Private sector lines of credit have traditionally been channeled by the state to its development banking institution, the Development Finance Corporation (DFC) and the Social Security Board. Between 1999-2004, the DFC portfolio grew rapidly to about 28% of GDP caused mainly by state-driven housing sector developments. A series of dubious DFC loans exacerbated by poor due diligence on investment viability and subsequent failed investments that were subject to state guarantees on the loans have resulted in the state assuming BZ$420 million debt owed to external creditors. Further diagnostics have also revealed troubling governance weaknesses and management shortcomings prompting technical recommendations from external financial institutions[19] for the closing of the DFC’s operations in order to stop the worsening financial position of the entity. In response, the Government of Belize has not accepted this recommendation and instead has initiated a strategic restructuring of the DFC with an emphasis on stabilizing the losses to the loan portfolio by increasing loan repayment collection efforts[20]. However, the near insolvent status of the DFC will inevitably constrict credit access vitally necessary for growth and expansion in key socioeconomic sectors such as housing, construction, agriculture, light manufacturing and human resource development.

Credit unions play a key role in financing both private and cooperative business ventures and are now under the prudential supervision of the Central Bank of Belize. Credit union membership stands at more than 70,000 with an asset base of over BZ$208 million (GOB 2002, pg. 22).

Microfinance Provisioning

Currently, the Belize microfinance industry is dominated by NGOs and Credit Unions. NGO’s currently in operation include the Belize Enterprise for Sustainable Technology (BEST), who provides assistance to farmers and micro-entrepreneurs, including women, through technical assistance and community

[17] The most complete data set available to assess poverty in Belize
[18] It should be noted that the state’s poverty strategy is to “eliminate” rather than “reduce” poverty. It can be argued that this is based more on emotive rather than technical rationale as by all informational accounts and data trends, it will be overwhelmingly difficult to halve extreme poverty by 2015 and almost impossible to eliminate poverty altogether. It is also unclear as to whether the strategy’s main aim is the former or the latter.
[19] E.g. the IMF and the IDB
[20] Nevertheless, the IMF’s Article IV Consultation report notes that “key policy elements are yet to be defined” (pg. 1) in the DFC restructuring exercises and there is concern that the DFC’s loan portfolio could become increasingly non-viable, deterioration of collateral assets would continue to occur and ongoing unsustainable operations would need state budgetary support to continue and become an additional fiscal burden on the state.

banking facilities. The National Development Foundation of Belize, which with shrinking loan portfolios due to reduced traditional "soft" credit lines and high levels of loan defaults and delinquencies, is itself threatened with closure. The organization was originally financed by USAID and designed to provide a micro-credit facility plus business training for the most disadvantaged, but has not been involved in loan disbursements since 2002. Finally there is the state owned and administrated Small Farmer's Business Bank, financed initially by the Republic of Taiwan ICDF. Along with the Credit Unions, these institutions attempt/ed to fill the gap created by the "risk averse" banking system but for the most part are financially unsustainable and remain extremely dependent on donor funding. Even BEST, one of the best performing NGOs to date derives 60% of its revenue from funding from donor partners.

Even though Belize has yet to develop an efficient, productive and sustainable microfinance industry with significant outreach to the poor, the cases illustrated above in inserts 1 and 2 and insert 3 below, indicate that there have been some creative successes in linking poor producers to export markets.

The Belize National Handicrafts Center

The Belize Chamber of Commerce & Industry (BCCI) operates a National Handicraft Center that services the overnight and cruise tourism industry. Located in Belize City the country's main center for economic and business activity, the National Handicraft Center works with local handicraft producers and artisans - including musicians, painters, etc. – from throughout the country, to market and sell their products directly to tourists and visitors. The NHC, located close to the tourist village, the main port of disembarkation for cruise tourists visiting the country, is a feature for touring cruise passengers and thus provides a central, well established marketplace for local poor producers. The center also provides technical direction on quality and market information on pricing and changes in consumer demands to producers.

The NHC's policy is to purchase directly from the producers and they work with individuals and associations. For example woven straw products (baskets, hats) produced from a grass locally referred to as 'Jippy Jappa', is sourced from a Mayan Women's cooperative called the Belize Indigenous Training Institute, or BITI, in the Toledo District (the poorest district in Belize). The other products, wood carvings, sculptures and paintings, are sourced directly from the individual producers, who in some cases are financed through volume orders or on consignment agreements where one half of the purchase price is delivered prior to resale and the other one half upon the conclusion of the resale.

The center does its best to promote the artists and the indigenous quality of the items and according to its management, because of this and its willingness to "work" with the artisans, has developed an enduring relationship with its suppliers.

Conclusions and Recommendations

As a country with a high degree of poverty and significant economic challenges, Belize could benefit significantly from a performing microfinance industry that seeks to leverage the components of the virtuous circle for the development of its people.

However, the country must first establish the main preconditions for development of the SME sector, which include a macro-economic environment in which entrepreneurial activity is able to thrive and prosper, a value system, facilitated through the formal education system that encourages entrepreneurial culture, and a commitment to development of a comprehensive support regime that promotes financial empowerment for the poor through development of sustainable links with export markets. Just as important however is the need for innovative micro-financing from private suppliers that provides for and in fact ensures the link between micro, small, and medium enterprises and export markets or value chains.

Because the microfinance industry is still very much in its infancy, the country has an opportunity to learn from its neighbors and to borrow best practice approaches in developing microfinance mechanisms. It must however heed its own mistakes in the past and build in mechanisms to calibrate and correct operating inefficiencies and distortions through the design and implementation of an appropriate regulatory framework.

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