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**AN ASSESSMENT OF BELIZE'S CAPITAL MARKET  
DEVELOPMENT, 1985 - 1994**

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*An Assessment of Government of Belize's*

*Capital Market Activity*

*1985 - 1994*

By

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## INTRODUCTION

Like most developing Caribbean countries, Belize's economy is characterized by a shallow financial system dominated by the commercial banks, with marginal participation mainly by credit unions and insurance companies. Portfolio opportunities are limited, reflecting an inadequacy in both the supply of and the demand for alternative instruments. The weak demand has been linked to a trend of low savings/GDP ratio, while the short supply mainly reflects a tendency on the part of investors to resort to debt rather than equity financing.

In an effort to address these deficiencies two studies were conducted on the development potential of Belize's capital market. The first was commissioned by the Central Bank of Belize through the Crown Agents Financial Advisory Service (CAFAS), and was completed in November 1989. The second study was commissioned by the Ministry of Finance through the Commonwealth Fund for Technical Assistance (CFTC), and was finalized in 1991.

The consultant group from the CAFAS conducted an exhaustive study of the state of Belize' capital market and put forward recommendations for the development of its money, bond, and equity markets. Measures were also suggested for rectifying deficiencies that were identified in the capital market, such as the lack of adequate mortgage financing and for effecting changes were also suggested with regard to interest rates policy, market regulation, institutional strengthening, and public education.

The second study conducted by the CFTC group was completed in February 1991 and was "action-oriented". It concentrated on measures which were necessary to effect development of the bs. These included efforts to increase market activity and to ensure the soundness of the emerging market through institutional strengthening and the provision of appropriate regulatory framework.

For the purposes of this paper, only those recommendations pertaining to the development of the bond and equity markets will be discussed. An attempt will be made to assess Government's capital market activities over the 1985-1994 period with a view to determining the degree to which policies objectives and the study recommendations were realized. The recommendations and Government's market activities will be discussed in section I and section II, respectively. The second section will also include an examination of the extent to which government realized policies and objectives through bond and equity market activities. In the third section the activities will be assessed from the viewpoint of the recommendations in order to determine the extent of accord between the two. Where it can be determined that policies, objectives and the results of market activity did or do not concur with the study recommendations, suggestions will be made in the interest of "re-tracking" market developments.

**Part I:**

**Recommendations for the Development of Bs**

**CAFAS RECOMMENDATIONS**

The major recommendations of the CAFAS group with regard to the development of Belize's bond and equity markets included increased involvement by the Central Bank to stimulate the Government debentures market, an increase in bond financing by the public sector bodies, and the introduction of national savings bonds. Where the equity market was concerned, the report focused on the need to increase both the supply of and demand for equity securities, mainly through measures that would facilitate trading and provide incentives that would make these securities attractive both as a source of financing and of portfolio income.

The recommendations for the development of the bond market centered around increasing Central Bank involvement. Particularly, it was recommended that the Bank take a more active role as underwriters of Government's debentures rather than its traditional passive role of recipient. In this capacity it was suggested that the Bank canvas potential holders such as the insurance companies and the Social Security Board to determine what maturities and rates would best fit their portfolios so that the issues could be tailored accordingly. Additionally, recommendation was made for bond approval to be sought on a global basis rather than the existing system of gaining parliamentary approval for specific maturities and coupon rates.

In the interest of further stimulating the market, the report also recommended that the Central Bank include Government debentures as a minimal portion of approved liquid assets so as to provide incentive for commercial banks to trade in these securities. Suggestion was made whereby the Central Bank in order to "enhance their liquidity (p.14)" would stand ready to execute repurchase agreements for the debentures for limited periods where commercial banks faced a situation of liquidity crunch. However, the recommendation cautioned against the Central Bank becoming purchaser of last resort.

In order to increase the supply of debentures it was suggested that public sector institutions such as the Water and Sewage Authority (WASA), the Belize Electricity Board (BEB) and the Development Finance Corporation (DFC) be encouraged to raise funds through the bond market. Also, there was a final recommendation for the issue of national savings bonds, with denominations ranging from Bz\$100 to Bz\$1,000 in order to encourage market participation by small savers.

Where the development of Belize's equity market was concerned, the CAFAS report outlined three requirements for promoting growth. The first was an increase in the supply of tradeable shares, which could be encouraged through the introduction of "fiscal measures" that would encourage companies to go public. Additionally, it was suggested that the Central Bank sponsor or support a "security issuing unit" that would provide legal, financial and accounting services for the market at a reasonable cost.

The second recommendation was that measures be provided that would make it more attractive for savers to hold equities rather than other financial instruments. These included tax exemptions on dividend earnings and the possibility of declaring purchases of new equity as expenses for tax purposes.

The final requirement was that of improving the arrangements for securities trading. Again, the Central Bank was envisioned as the institution that could play the most crucial role here in that it could assist some independent "broker/jobber" in making the market for securities. Also, it was recommended that the tax on transfer of shares be waived so as to stimulate trading.

## CFTC RECOMMENDATIONS

The CFTC group determined that Belize's bond market development would be constrained by the small population (some 180,000 persons) and the low level of financial savings. Consequently, the report advocated the marketing of:

"a small range of debt instruments of different maturities, with active secondary trading, backed by a conscious programme of educating the public and engendering confidence (p.11)".

	Commercial Bank Savings		Credit Union Savings	Total Savings	Current GDP at Market Prices	Ratio of Savings to GDP
	Private Sector	Other Public Sector				
1981	78,751	3,409	11,489	93,649	385,812	0.24
1982	85,194	8,161	12,104	105,459	358,496	0.29
1983	102,544	13,339	12,962	128,845	377,967	0.34
1984	95,082	18,201	14,394	127,677	421,853	0.30
1985	106,784	15,554	15,744	138,082	418,383	0.33
1986	121,282	21,084	17,013	159,379	453,538	0.35
1987	145,306	26,740	16,380	188,426	551,242	0.34
1988	157,459	41,782	21,036	220,277	627,340	0.35
1989	174,809	50,305	26,010	251,124	722,191	0.35
1990	207,330	61,826	31,062	300,218	785,841	0.38
1991	231,653	69,654	36,307	337,614	839,885	0.40
1992	275,379	49,865	42,598	367,842	911,030	0.40
1993	298,473	25,884	50,959	375,316	1,047,750	0.36

The basis of this recommendation, that is, the low level of financial savings, can be examined from the data for the period 1981 to 1993 presented in table 1. Throughout the 1981 - 1990 period, the ratio of commercial bank and credit union savings to GDP measured 35.0 percent or less and increased to an average of 38.5 percent over the 1991 - 1993 period. Despite this improvement, it is important to note that the nature of these savings is such that the funds cannot be considered available for purchases of securities as most of it



represent collateral for outstanding loans. In the case of the commercial banks, most time deposits held by businesses are tied to operating loans, a reflection of the fact that loan expenses are chargeable against income while taxes are payable on profit/dividends. Where the credit unions are concerned, most members utilize their shares to secure personal loans. Even more crucial than the issue of adequate savings levels, then, is that of introducing tax incentives or reform so as to effect significant changes in the approach to business financing.

With regard to equity market development, the CFTC group suggested measures be taken to increase both the supply of and demand for securities, mainly through a range of Government incentives. On the supply side these included various tax initiatives that would make it more attractive for companies to access funds through the issue of equity rather than through commercial bank debt. On the demand side a combination of tax exemptions and rebates were recommended and it was suggested that the commercial banks should be encouraged to accept securities as loan collateral. In consideration of Belize's shallow financial savings, the group also recommended a decision be made to sell a specified portion of securities abroad.

Where secondary market activity was concerned, the CFTC report recognized the impediments to establishing a formalized stock exchange or a sophisticated over the counter (OTC) facility; mainly the small number of public enterprises and the low level of trading (p.26). It was recognized that the high capital requirements, the required "feel" for the market and high level of skills with regard to risk assessment and price trends, as well as the

low rates of returns inherent in this type of activity would deter would-be market makers. Consequently, the Report advocated the market-maker role with regard to both primary and secondary market activity be entrusted to one of the commercial banks, with regulation by the Central Bank.

In addition to the specific recommendations for bond and equities, the CFTC report included suggestions for the overall development of Belize's capital markets. Key suggestions included the pursuit of prudent fiscal management and the maintenance of a "liberal free enterprise economy, with a convertible currency and an exchange rate regime that promotes trade and encourages greater competition (p.38)." Also, the need to effect "an adequate and sustained supply of securities (ibid)" was underscored.

While the format of the CFTC report was different from that of the CAFAS report, the essence of the recommendations was the same. Both groups strongly advocated Central Bank involvement in order to initiate the growth of Belize's capital markets and stimulate secondary market activity. Also, both recognized the need to increase both the demand for and supply of securities and to boost secondary trading activity. In this connection also, both reports underscored the need for institutional strengthening and public education.

One key role of the Central Bank put forward in the recommendations, that of underwriter for Government's debenture issue, merits further discussion. In its extreme this requires Central Bank financing debenture issues and guaranteeing payment to investors.

This strategy has been utilized by many countries to further the development of fledgling capital markets, and is consistent with the Bank's objective of fostering credit conditions conducive to growth<sup>1</sup>. However, since it involves the Bank's exercise of its seignorage regarding the creation of money, care would have to be taken to avoid adverse results. There are no guidelines to limit money creation activity in this regard other than the need to balance both the requisite market stimulation and the maintenance monetary stability. Bank technicians would therefore need to rely on their intimate knowledge of the economy to determine such limits as size and maturity of individual debenture offers with a view to achieving both goals (Blackman).

Where the Central Bank's role of stimulating increased commercial bank involvement through secondary market activity was concerned, the recommendation cautions against the routine renewal of repurchase agreements for debentures held by the commercial banks. In fact, a situation where individual banks would need to resort repeatedly to the Central Bank to ease their liquidity crises would be an indicator of some fundamental deficiency in that bank's operations and measures would need to be taken instead to correct any shortcoming or imbalance (ibid).

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<sup>1</sup> Central Bank of Belize Act, 1982.

Part II:

Government policies and privatization activities, 1985 to 1993.

The commissioning of these reports, as well as the interest displayed in other reports and inquiries that were conducted during the 1985 - 1990 period, such as the 1985 USAID report on Belize's Capital Market, were an acknowledgement of the need to address the potential to increase savings so as to channel needed funds to productive sectors. It was recognized that for the rate of economic development to be increased, viable investment alternatives had to be identified to meet, respectfully, the portfolio and financing needs for surplus and deficit entities. As a first step, an active bond and/or equity market represents an alternative to the traditional and somewhat abused commercial bank overdraft and loan financing.

At the beginning of the Government's term in 1985, these issues were not as evident and thus there was no official policy with regard to capital market development, either stated or otherwise. Given the economic situation which the 1985-1989 administration encountered, where the country had embarked on a stabilization programme, there was an acknowledgement that the Government would have to divest some assets in order to alleviate its tight financial situation. This need, then, rather than some pre-determined objective or strategy, was what drove capital market developments during that period.

With the impending expiration of an existing contract with the U.K. based Cable and Wireless company for the provision of long distance services, Government saw an opportunity to raise much needed funds by divesting a viable enterprise. The company was therefore served the required twelve month's notice that their contract would not be renewed. Upon their acquisition of the international telephone company, Government merged both the local and international entities and consequently made its first ever public offer for the sale of equity. In order to ensure the success of the venture, they guaranteed would-be shareholders a 15 percent dividend on their investment for an indefinite period. This went a long way toward allaying the fears of the public, who were uneducated and uninformed on the mechanics of capital market activity, and the forty-nine percent shares offered by the Government were taken up wholly by the general public.

To the extent that Government's objective in stimulating capital market activity during this period was simply to raise capital funds, then the share issue was successful. The public offer of 6.4 mn 'C' ordinary shares yielded revenues of Bz\$12.8 mn. Additionally, Bz\$22.0 mn was received for the sale of 3.0 mn preference shares to the Central Bank of Belize and 8.0 mn 'B' ordinary shares to British Telecom. The latter transaction ensured the continued involvement of a company which could provide a vast pool of technical expertise and therefore ensured the continued development of the telephone company (Vasquez).

	Percentage Equity	Number of Shares	Type of Ordinary Share
British Telecom	25.00	8,000,000	'B'
Initial Subscribers	0.00	7	'C'
Gov't of Belize	55.00	17,599,923	'C'
Social Security Board	12.11	3,875,000	'C'
General Public	7.87	2,518,820	'C'
BTL Staff	0.02	6,250	'C'
<b>Total</b>	<b>100</b>	<b>32,000,000</b>	

By the time a new administration came to office in December 1989, the potential benefits of developing Belize's capital markets had become quite clear. That which was absent from the 1985 - 1989 five year macro-economic plan was conspicuous in the new Government of Belize Development Plan 1990 - 1994, a statement on Government's capital market objectives. The plan included strategies to address domestic financing deficiencies with regard to the lack of long term capital for investment and credit to small and medium term enterprises (SME's) and the unavailability of funds at a reasonable rate for mortgage financing. To this end, page 8 of the Plan included the following strategies with regard to the bond and equity markets.

1. Establishment of an Over the Counter (OTC) trading facility at the Central Bank.
2. Encouragement of greater private sector involvement in financial markets, particularly through encouragement to expand and diversify the range of financial instruments available in Belize.
3. Provision of fiscal incentives to eligible private corporations to issue shares to the public.

4. Examination of policies aimed at encouraging reliance on non-credit financing, such as equity, and
5. Reviewing fiscal and monetary policy to ensure excessive dependence on debt as opposed to equity is not encouraged.

Further to these stated objectives, the 1990 - 1994 period saw a marked increase in Government's privatization activity, ostensibly for the purpose of financing major infrastructure projects. By the end of the term in 1993, therefore, Government had completely divested themselves of their remaining 51.0 percent shares in BTL. Since the institution had realized ever increasing profits over the four years prior to this second offer, the public recognized this as a lucrative investment and the 12.6 mn ordinary shares were fully subscribed to and yielded an estimated \$29.2 mn.

	Percentage Equity	Number of Shares	Types of Ordinary shares
British Telecom	25.00	8,000,000	'B'
British Telecom Initial Subscriber	-	1 7	'C'
Gov't of Belize	2.41	771,395	'C'
Social Security Board	27.35	8,752,900	'C'
Belize Holdings	22.97	7,348,744	'C'
BTL Staff	0.02	6,250	'C'
Other Private Sector	22.25	7,120,703	'C'
<b>Total</b>	<b>100</b>	<b>32,000,000</b>	

In addition to the divestment of BTL, the period also saw the first public offering of Belize Electricity Ltd (BEL) securities. These were sold in denominations of \$100, consisting

of one \$76.00 debenture and 12 ordinary shares valued at \$2.00 each. Approximately 3.4 mn shares or 49.0 percent of equity was sold as well as 282,975 debentures. Of the share total, 0.8 mn were taken up by the Social Security Board and 2.6 mn by the general public. The take-up by the general public included \$2.1 mn purchased by institutions, mainly IBCs.

**Table 4: Belize Electricity Limited**  
Frequency Distribution of ownership as at end of offer, 1993:

	Share Percentage	Number of Debentures	Number of Shares
BEL employees	0.76	4,402	52,824
General Public	16.69	96,385	1,156,620
Social Security Board	11.55	66,688	800,256
Belize Bank	20.00	115,500	1,386
Gov't of Belize	51.00		3,534,300
<b>Total</b>	<b>100.00</b>	<b>282,975</b>	<b>5,545,386</b>

Aside from equity securities, there was a new issue of debt securities during the period in the form of a \$5.0 mn offer of Central Bank Building bonds. This issue was intended to further stimulate market activity and was the first in a series intended to finance the construction of the Bank's headquarters (Barnett). The issue was taken up by some 284 investors, with the highest single bid being \$450,000. Investors came from a wide cross section of the community and included insurance companies, commercial banks, various pension schemes and miscellaneous companies and individuals (Securities Desk).

During this 1990-1994 period also there was serious consideration of the CFTC recommendation with regard to OTC activity. However, rather than locate this facility within a commercial bank, it was envisioned that the Central Bank, which had acted as the



Government's agent in the issue of primary securities in both BTL and BEL, be the locale for weekly posting of average share prices. Additionally, the Bank would stand ready to accommodate sales and swaps of securities. Once developed the facility would have been moved to a private sector institution (Fonseca).

The degree to which Government achieved their objectives during this period must therefore be examined both in light of the Development plan and the stated objective of financing infrastructure projects. Although some measures were taken to establish an OTC facility at the Central Bank, this goal was not fully accomplished. The intent to increase the number of shares available to investors was achieved through Government's sale of equity in BTL and BEL, as well as the sale of debentures in the latter. The sale of building bonds by the Central bank increased the number and variety of shares available. Where the other plan objectives were concerned, however, the degree of accomplishment was considerably less. So far no significant changes have been made to any policy, either fiscal or monetary, that had a serious impact on companies resorting to debt financing, nor were there significant incentives to eligible private corporations aimed at encouraging them to go public.

The need to finance infrastructure projects through privatization activity may be examined with the help of table 5, governments revenues and expenditure, 1984/85-1993/94. Expenditure on infrastructure projects as measured by capital II increased by 28.1 percent and 48.3 percent respectively in the 1990/91 and 1991/92 fiscal years. Of the total \$56.1 mn

and \$83.2 mn outlays, an estimated \$9.4 mn and \$19.7 mn were counterpart funding to Capital III (externally funded) projects. Capital outlays for the 1992/93 fiscal year measured \$85.8 mn, with counterpart funding of \$27.5 mn. There was a substantial increase in recurrent expenditure during this period also but this was offset by a \$61.3 mn rise in recurrent revenues, mainly a result of higher tax receipts. Capital II expenditure which were not counterparts to Capital III projects included rural electrification, land development, construction and maintenance of streets and drains, and equity investment in a small farmer's development bank (see appendix).

Table 5: Government of Belize: Revenue and Expenditure

Period	Recurrent Revenue	Recurrent Expenditure	Current Balance	Capital Revenue	Grants	Capital II Expenditure	Capital III Expenditure	Operating Balance	Overall Balance
1984/85	93.6	94.6	-1.0	7.1	4.7	28.2	98.3	-17.4	-115.7
1985/86	98.5	106.1	-7.6	1.8	1.6	40.2	100.1	-44.4	-144.5
1986/87	111.2	105.1	6.1	1.5	4.7	33.8	115.9	-21.5	-137.4
1987/88	136.1	127.1	9.0	3.4	1.9	9.3	8.5	5.0	-3.5
1988/89	158.4	132.0	26.4	42.1	1.9	27.4	1.0	43.0	42.0
1989/90	183.6	146.5	37.1	12.4	14.1	43.8	21.0	19.7	-1.3
1990/91	210.9	142.7	68.2	11.3	14.4	56.1	24.6	37.8	13.2
1991/92	218.4	152.4	66.0	30.4	31.0	83.2	41.4	44.2	2.8
1992/93	245.9	186.2	59.7	35.1	35.9	85.8	60.4	44.9	-15.5
1993/94	249.1	229.3	19.8	6.9	16.0	56.9	84.2	-14.2	-98.4

After the 1993 elections, the Government formulated a medium term economic strategy (MTES) to guide their activity over the next few years. The MTES emphasizes the need for adjustment measures to be taken to protect Belize's reserves, the key to its economic stability, and to prepare the economy for survival in the face of NAFTA and

GATT. While there is no stated policy with regard to capital market development, the MTES does include measures for financial sector reform which are consistent with both CAFAS and CFTC recommendations for the strengthening of both institutional and regulatory framework.

The MTES also made specific reference to privatization, with mention of the key enterprises that are being examined for public offering. The feasibility of privatizing each entity was discussed and some general issues that need to be resolved were underscored. One such issue was the creation, through previous privatization activity, "of private, unregulated monopolies (p.28)". Also, the need for Government to maintain "a golden share" in BEL because of the public interest was also emphasized. Where the prospective privatization of the Airport Authority was concerned, the need to retain control of certain key services, such as fire, police and customs, was noted. In addition to these issues, low levels of financial savings and a slowdown in economic activity were seen as major constraints. In light of these concerns Government effected a slowdown in the rate of privatization activity.

Aside from the privatization goals expressed in the MTES Government was faced with the need to finance the upgrade of the Belize Defence Force consequent to the withdrawal of British Troops (1993-1994). In his interim Budget Speech, November 1993, the Minister of Finance announced that this financing need would be met through the sale of Belize Defence Bonds. The first \$5.0 mn offer for these bonds was made in July, 1994.

The bonds pay 9.0 percent interest with a maturity term of fifteen years and are issued in denominations ranging from Bz\$100.00 to Bz\$5,000.00. By the close of the offer \$1.6 mn of the issue had been taken up by the general public and \$3.4 mn by the Social Security Board, the designated buyers of last resort.

### Part III

#### Government Policies and Market Activities

#### In Light of CAFAS, CFTC Recommendations

Throughout the review period Government activity with respect to bonds and equities was influenced more by financing needs than by either policies or the commissioned recommendations. Driven as they were by need, however, the activities did lead to some desired results from the perspective of the recommendations. In addition to the available long term securities from the privatization processes and the Belize Defence Bonds, Government introduced a one year treasury note in late 1993 in an effort to further cover the financing gap. Altogether, then, Government financing activities during 1985 - 1994 have resulted in an increase in the quantum and type of available financial instruments consistent with the recommendations.

Over the period the Central Bank of Belize has acted as Government's agent in the sale of these securities. This function has evolved into that of an established securities desk which stands ready to facilitate secondary trading in BEL securities, Government of Belize (GOB) Defense bonds, Central Bank Building Bonds and GOB Treasury Notes. To the extent that this function is limited to only those public securities and does not provide "legal, financial and accounting services (p.18)" it falls short of the CAFAS recommendations. The desk is also not a precursor to the CFTC recommended role of "market-making", which is even more involved than that of the CAFAS recommendation as it requires availability of

funds to perform the function of underwriting. It was never intended by any of the CAFAS or CFTC analysts for an OTC function to be performed by the Central Bank since it could compromise the Bank's role as market regulator and managers of public funds.

The development of any capital market must be measured by the extent of secondary market activity. While the 1985 - 1994 period included significant primary activities where equity and debt securities are concerned, there has been very little trading on the secondary market. In the case of the equity securities a major contributor to the weak secondary trading has been the public perception of the two utility companies, BTL and BEL. As mentioned before, BTL operations have been extremely successful over the past five years, resulting in average dividends of 35.8 cents. These high rates of returns have therefore resulted in a great demand for these securities which is matched by a virtual lack of supply. On the other hand, the operations of BEL prior to privatization were widely considered unprofitable and therefore the company was not viewed as an attractive equity venture. In order to overcome this problem, the offer was fashioned in units which consisted mostly of debt securities. Since the end of sale, the level of secondary trading in BEL securities through the Central Bank desk has been very low. However, the high rate of return on BEL debentures (12.0 percent) is the real key to the low trading. Most secondary sales so far have been initiated more for liquidity needs than for profit.

The lack of trading in BTL securities reflects the fact that ownership in the company is presently concentrated in three entities. This development of BTL into a largely unregulated private monopoly was contrary to the caveat of the CFTC report, which cautioned against the "piecemeal" divestment of the company as it would not be an effective capital market strategy (p.16). Primary issues in the companies securities were effected without sufficient provisions for post-privatization regulation. Consequently, there are serious limitations on the capacity of the relevant regulatory authority to limit tariffs. This is reflected in the high tariff rates and stringent credit conditions which are prevailing.

The issue of capital market regulation is also important to its development, and despite the recommendations it has not yet been adequately addressed. Developments in this area must be tangential to market activity as there is a need to provide "optimum" regulation to emerging markets. If emerging markets are over-regulated there is a risk of deterring companies and therefore compromising the supply of securities. On the other hand, if they are under-regulated companies would have no operations and disclosure standards to meet and investors may be placed at risk (Barnett).

Two recommendation of the consultant groups which were key to the development of a sustainable market were the need for public education and for institutional strengthening. Government activities so far have not included enough of a concerted effort in either of these areas. In connection with the drive to increase trading in Treasury bills and with the sale of its Central Bank building bonds, the Bank has made some attempts at

informing the public where capital market mechanics and its potential benefits are concerned. This, coupled with information disseminated in connection with the privatization offers, has had some effect on the public's understanding and perception of capital markets. Certainly, the manner in which BTL and BEL securities were subscribed to indicates that the general public is by now quite capable of assimilating and evaluating information regarding the viability of companies. As is the case with regulation, it may be necessary to educate potential investors in conjunction with market activity. So far this seems to have been largely accomplished on the demand side. With regard to supply the private sector institutions are as yet unwilling to seek financing through share offers, indicating a need for further education. In addition, sufficient incentives (mainly tax) must be provided so that companies can have a decided advantage in seeking equity financing.



## Conclusion

Altogether, Government's overall objectives of raising funds to finance various fiscal operations have resulted in capital market developments that have been primarily diametric to the earlier recommendations of the CAFAS and CFTC group. The privatization of the two utility companies and the sale of BEL debentures and defence bonds have resulted in an increase in the number and variety of available instruments that is consistent with the recommendations. However, there has been a shortcoming with regard to implementing adequate measures toward effecting the emergence of a sustainable market. This is most evident in the fact that the complete divestment of BTL has resulted in these holdings being largely institutionalized, and this, coupled with the high rates of returns on the long term debentures, has led to a largely inactive secondary market. Effective market development stems from a wide dispersion of security holdings. The diversification in holdings of \$5.0 mn Central Bank building bonds indicates that efforts to effect broader holdings should include "timed-release" of securities so as to make provisions for the characteristic low levels of savings. That is to say dispersion must be achieved through more frequent public sales of relatively low amounts with reasonable time allowed for take-up.

Where the required evolution of a sustainable market is concerned, the issues of public education and fiscal incentives are both vital. While the recently introduced tax on interest income reduces the advantage of companies utilizing deposits for collateral on business loans it is still not an incentive for companies to consider public sale of equity. It may be a long time before this can be achieved, and perhaps the best that can be done in

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