POTENTIAL INVESTMENTS FROM THE PRIVATE SECTOR FOR CLIMATE ACTION IN BELIZE

April 2021

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List of Acronyms

AF	Adaptation Fund
ASAP	Adaptation for Smallholder Agriculture Programme
BCUL	Belize Credit Union League
BEDC	Belize Economic Development Council
BEST	Belize Enterprise for Sustainable Technology
BNB	Belize National Bank
BNCCC	Belize National Climate Change Committee
BRFP	Belize Rural Finance Programme
CAEP	Climate Action Enhancement Package
CALC	Climate Action Line of Credit
CCCCC	Caribbean Community Climate Change Centre
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CERs	Certified Emissions Reductions
CF	Climate Finance
CFAN	Climate Finance Access network
CFS	Climate Finance Strategy
CIF	Climate Investment Fund
COAST	Caribbean Oceans and Aquaculture Sustainability Facility
CPF	Country Partnership Framework
CRF	Caribbean Resilience Fund
CRI	Credit Risk Instrument
CTF	Clean Technology Fund
DRM	Disaster Risk management
ECLAC	United Nations Economic Commission for Latin America and the Caribbean
EE	Energy Efficiency
EIB	European Investment Bank
EDF	Environmental Defence Fund
ER	Emergency response
EU	European Union
FAO	Food & Agriculture Organisation
FIP	Forest Investment Partnership
GBN	Green Bank Network
GCCA	Global Climate Change Alliance
GCF	Green Climate Fund
GEEREF	Global Energy Efficiency & Renewable Energy Fund
GEF	Global Environmental Fund
GoB	Government of Belize
GSDS	Growth and Sustainable Development Strategy
IADBG	Inter-American Development Bank Group
ICC	International Chambers of Commerce
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IMF	International monetary Fund
MDBs	Multi-lateral Development Banks
MIF	Multilateral Investment Fund
MIGA	Multilateral Investment Guarantee Agency
MSMEs	Micro Small Medium Enterprises
NBF	Needs Based Finance (UNFCCC)

NDCs	Nationally Determined Contributions
OECD	Organisation for Economic Co-operation and Development
ODI	Overseas Development Institute
OLADE	Latin American Energy Organisation
OTC	Over the Counter
PACT	Protected Areas Conservation Trust
PPCR	Pilot Programme for Climate Resilience
RE	Renewable Energy
SCF	Strategic Climate Fund
SCCF	Special Climate Change Fund
SDG	Sustainable Development Goals
SGP	Small Grants Programme
SIF	Social Investment Funds
SISRI	Small Island States Resilience Initiative
UNDP	United Nations Development Programme
UNEP	United Nations Environmental Programme
UNICEF	United Nations Children's Fund
UN REDD	The United Nations Reducing Emissions from Deforestation and Forest Degradation
WBG	World Bank Group

1.0 Background

This is the second of two draft Reports submitted by NUADA Consulting to the Windward Islands Research and Education Foundation (WINDREF) and Regional Collaboration Centre – St. George's (RCC-STG), established in partnership with the UNFCCC.

These two submissions are part of the activities related to the UNFCCC Needs-Based Finance Project (NBF) and intended to support the Government of Belize in its Climate Finance Strategy.

In our first report *'Strategies for MDBs to Support Mobilisation of Climate Finance in Belize'* we examined the country support programmes of the MDBs and other international development partners and sought to identify the strategy linkages between partners and potential investment support for Belize's updated NDCs, as part of the evolving CFS. We also estimated the climate finance leverage potential of country support for both the public and private sectors, identified barriers to leverage and how they might be removed, offered strategies to enhance collaboration as well as and made specific recommendations to leverage climate finance using MDB assistance.

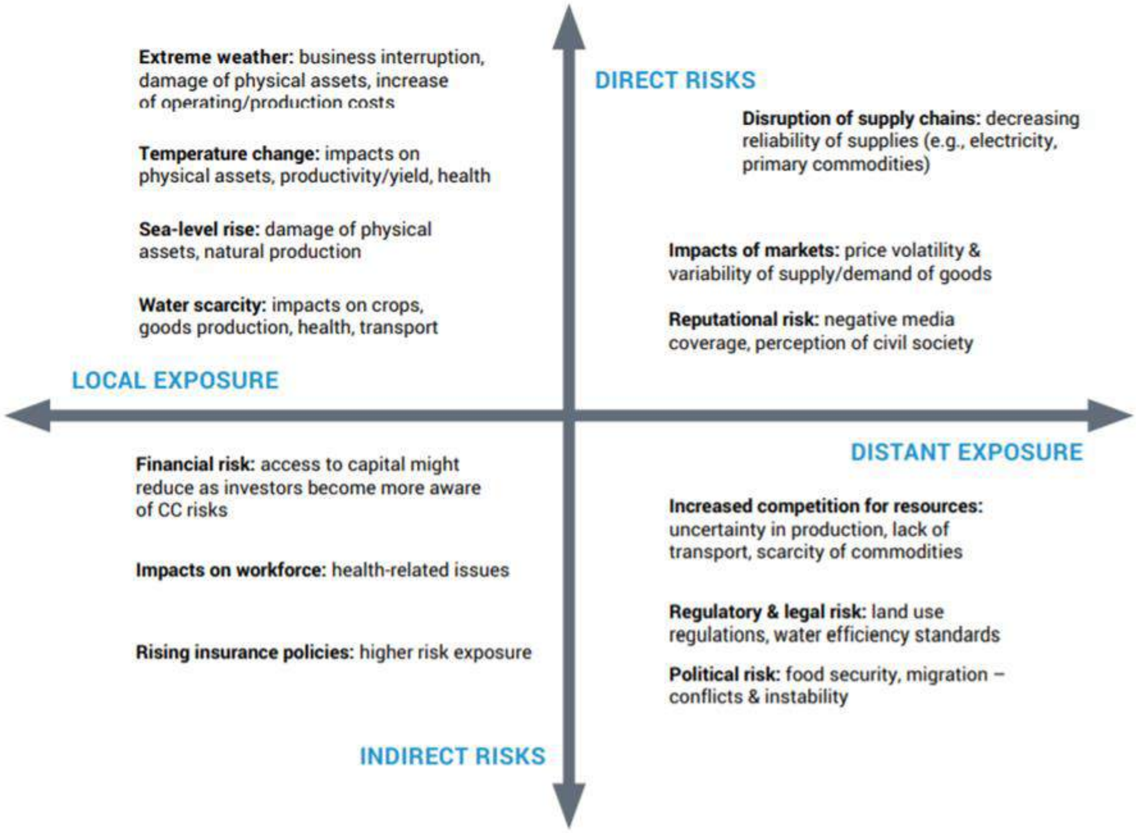
This second report is a logical extension of the first. It lists the interests and concerns of the private sector towards climate actions, identify the barriers for climate sector investments and how they may be removed, so as to increase investments towards the updated NDCs. Recommendations are also made to use climate finance to attract private investment, along with strategic recommendations on how to do so.

2.0 Introduction

Climate change can have multiple impacts on private sector companies. Firstly, it creates a series of new business risks, the most obvious being physical risks - the operational impacts of extreme weather events, or supply shortages caused by water scarcity or flooding. Companies are also exposed to transition risks which arise from society's need to respond to climate change, and the demands for radical changes to technologies, markets, government policy and regulation to confront what appears to be a growing threat to implementing traditional economic growth and development initiatives.

Extreme and unpredictable weather can also increase business costs, undermine the viability of existing products or services and affect asset values. Companies that fail to transition - fail to adequately 'climate proof' or continue to cause unwarranted environmental damage to the natural asset base of a country, can easily lose market share and even become obsolete. In the fossil fuel sector particularly, public interest challenges are increasingly being brought directly against companies holding them directly accountable for damaging 'public goods'. A list of direct and indirect climate risks follow in Figure 1:

Figure 1: Direct and Indirect Climate Risks to Businesses



Source: WBG[1]

Climate change, however, also offers business opportunities. Companies can aim to improve their productivity by increasing energy efficiency, resulting in reduced costs. Climate change presents opportunities for companies to create new more resilient products and services which are less dependent on imported fossil fuels and encourage similar responses from others. Together, these actions can foster competitiveness and unlock new market opportunities for collective security and local economic development. These opportunities for example are self-evident for Belizean companies promoting food security through integrated agro-industries or offering marine and terrestrial nature-based tourism services to international visitors resulting in a destination brand committed to conservation and sustainable use of natural assets. Climate finance can provide additional support for business opportunities geared towards resilience, low carbon and other national development objectives.

It is important to understand however, that private sector investments in climate action are no different to investment decisions in other markets – they are always based on clear information on what the opportunity is, a perceived low risk of loss and a reasonable return, in a short as possible time frame. **To attract private investors, climate investments must be analysed, packaged, and made both attractive and visible to potential investors**. The updating of Belize's NDCs, the selection of priority actions and the creation of structured

[1] Enabling Private Investment in Climate Adaptation & Resilience, WBG, 2019

opportunities to attract private investments, particularly local MSMEs, are key for Belize to achieve its 2016-2019 GSDS and 2030 Vision.

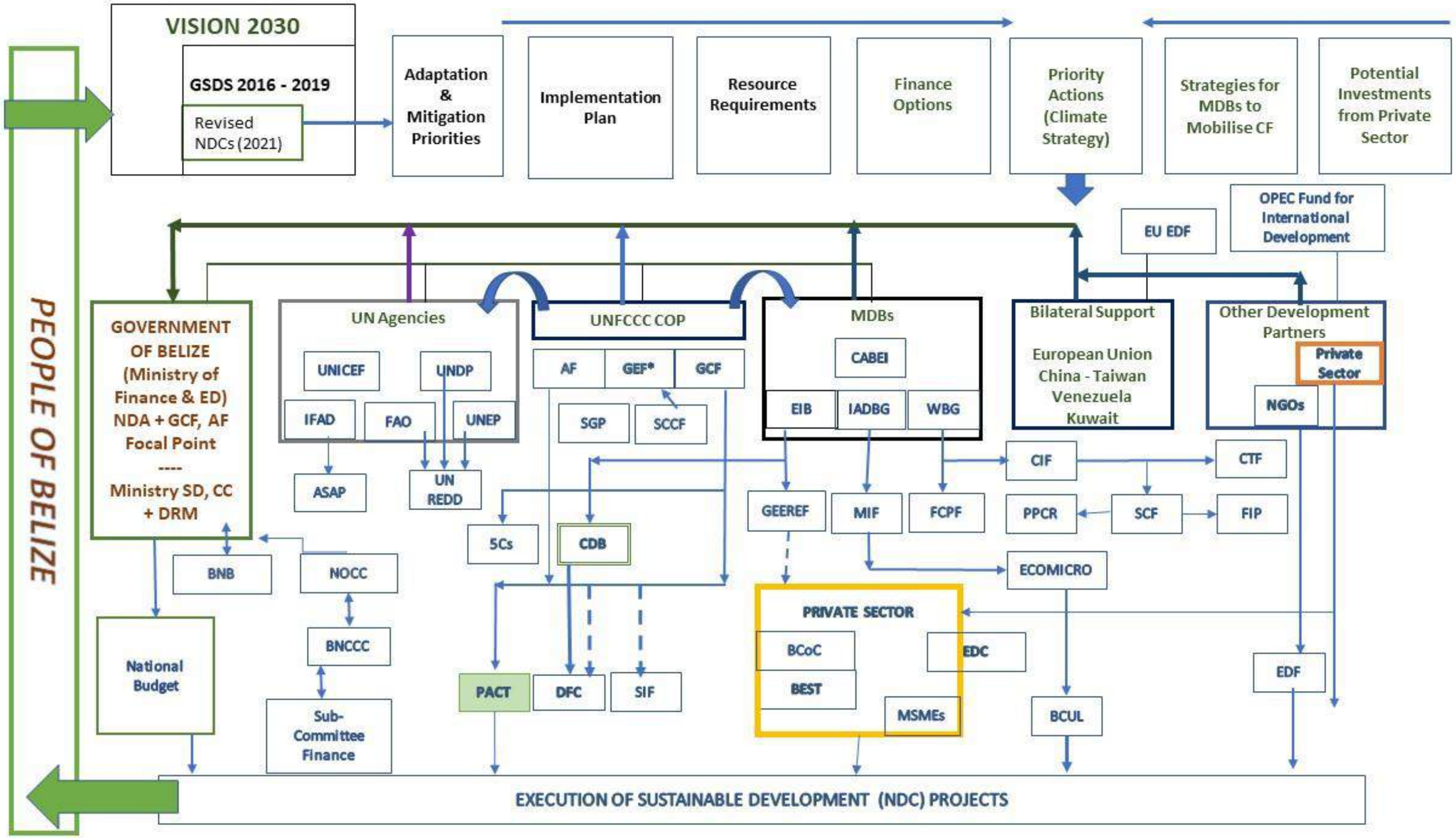
At the global level a huge and arguably complex array of financing opportunities has emerged in response to the climate crisis. MDBs, UN Agencies and other development partners operate as intermediaries channelling this technical support and new and 'additional' climate finance to vulnerable regions like the Caribbean. **The criteria for access, implementation modalities and reporting requirements can appear daunting to intended beneficiaries.**

Knowledge of how to blend development and climate finance sources and leveraging these to attract private investors is essential to achieve the most efficient on-the-ground development benefits. Additionally, the Governments must face the challenge of prioritising NDCs, matching them with development priorities, and then identifying the most appropriate blend of finance sources.

Figure 2 below is a snapshot of reporting steps taken so far in Belize's *country driven* NBF Project, from embedding the updated NDCs within Belize's Growth and Sustainable Development Strategy to determining the priority actions required to finance the NDCs as part of the overall climate response strategy. These steps are: Identifying priority mitigation and adaption actions, implementation planning, establishing resource requirements and financing options and strategizing to mobilise both MDB Country support and attract private sector investment.

The major investors supporting development in Belize are represented with a focus on the UN Agencies and MDBs. Also identified are the existing and potential climate action funding sources available to Belize as well as the key institutional stakeholders on the ground, from both the public and private sectors.

Figure 2: Snapshot of Local and International Development Partners and Climate Funds available to Belize



Source: NUADA Consulting

3.0 Investing in Climate Action - Interests and Concerns of the Private Sector

Data analysis from a survey undertaken among a group of one hundred (100) MSMEs, and nineteen (19) MSME Support Organizations in five (5) selected Caribbean economies including Belize, reveals that the majority of the MSMEs and the Supporting Organizations have heard the terms “climate change,” climate change “mitigation” and “adaption”, but overall, did not fully understand the implications for their respective businesses or relevant actions to be taken.[2]

Most of those surveyed were however, able to clearly identify their most serious concerns about the effects of climate change as reduced customer demand for goods and services, a reduction of government support and damage to physical assets and production processes.

MSMEs in Belize all agreed their businesses were vulnerable to climate change with ¼ indicating they were “very vulnerable”. Two-thirds of the businesses surveyed felt that their operations would be materially affected in the near future, with most indicating the impact would take place within the next 10 years. All respondents felt the responsibility to assist national efforts to combat climate change by implementing conservation measures or using renewable energy sources. Half of the businesses claimed without being specific, to have already taken proactive steps towards climate proofing. When asked about contingency planning the MSMEs without plans indicated a lack of time, technical know-how and in some cases a lack of available finance. **All respondents were very willing to implement climate adaption measures with financial and technical support.**

Concerned MSMEs indicated that structural changes to operations were hampered by a high degree of informality within the sector, poor coordination between government and private sector generally, weak linkages with local authorities and inadequate regulations. High labour costs and crime were also cited as related concerns.

In taking mitigation measures Belizean MSMEs expect that in the future they will be able to lower operational costs, by installing solar panels, coming off the electricity grid, reducing pollution and as a result, improve their profitability.

In building resilience, MSMEs expressed interest in training in business planning especially for start-ups, strategic planning (for period of 5-10 years) to build adaptive capacity/business resilience. **MSMEs also expressed keen interest in increased engagement with government, tax breaks and a reduction in interest payments during periods of crisis.**

3.1 SME Support Organisations

The Survey also included MSME support organisations who identified a fairly large number of concerns not identified by the MSMEs including:

- External shock- global fuel and/or food prices
- Difficulty in accessing credit to make investments
- Corruption
- High electricity costs
- Difficulty gathering climate change related skill-sets
- Lack of awareness on climate change

[2] Regional Scoping Study for Private Sector Investment in CC Mitigation & Adaptation, Winston McCalla & Associated, 2019

- Lack of Technical Advice on climate change mitigation and adaptation
- Absence of climate-adaptive related programs
- Lack of access to physical assets (for example land)
- Economic concerns (low capital availability, investment costs, external risks, intervention not sufficiently profitable, hidden costs)
- Difficulty in trading goods/services on the local, regional or international market
- Constraining foreign direct investment policies[3]

3.2 Efforts Underway to Address Concerns

Three significant efforts are underway to address the climate related interests and concerns of MSMEs in Belize:

I. the Belize Chamber of Commerce and Industry (BCCI), with support from the IDB
II. the Belize Development Finance Corporation with support from the CARICOM Development Fund and
III. Caribbean Development Bank through the Green Climate Fund

3.2.1 BCCI

In October 2017, the Belize Chamber of Commerce and Industry (BCCI) and the IDB launched "*Proadapt Belize – Increasing Climate Change Resilience and Related Business Opportunities***".** The primary objective of the project is to increase private sector climate resilience in Belize. The project is funded by the Multilateral Investment Fund (MIF), a member of the IDB Group through the PROADAPT funding structure. PROADAPT was created to pilot and support the development of new and innovative methodologies; tools and business models to help micro, small and medium enterprises (MSMEs) in Latin America and the Caribbean increase their climate resilience and take advantage of related businesses.

The project will develop practical business models and tools to help MSMEs in Belize anticipate and prepare for climate-related threats to their assets, value chains and local communities, to become more climate-resilient, and to tap into an increasing number of market opportunities as risks from climate change increase. The expected impact of the project is far reaching and includes improvement in the resilience of buildings, flood-proofing of waste and wastewater management systems, protection of coastal areas, and diversification of energy services with renewable sources.

The Project will be implemented as a pilot in Belize City, San Pedro Town and Caye Caulker commencing in the second quarter of 2018. The Project has a total value of US $341,500 of which US $203,000 is from the IDB/MIF and the remaining US $138,500 is counterpart funding from the BCCI and its primary stakeholders. The execution period for this Project is two and a half years with BCCI as the executing agency.[4]

Limited information is available online on the progress, uptake and impact of this pilot.

3.2.2 CARICOM

[3] Ibid
[4] https://www.belize.org/services/climate-change-resilience-project/

The CARICOM Development Fund (CDF) was established in 2008 by the Caribbean Community with a mandate to provide financial or technical assistance to disadvantaged countries, regions and sectors in the Community. In 2019 the CDF began providing concessional support to the Government of Belize to implement its Growth and Sustainable Development Strategy through the Development Finance Corporation. The support comes in the form of a $US3M Credit Line and two Grants totalling $US 0.3M. The Credit Line will be administered by the DFC to improve access to developmental financing for productive sector support consistent with the GSDS and DFC's Strategic Development Plan – *Strategy 2021: Building Resilience against Climate Change and Economic volatility*.

The credit line will be used to provide financing at competitive interest rates to eligible projects targeting agriculture, manufacturing, agro-industry, commercial fishing, cultural industries, tourism and related services, with emphasis on small and medium-sized businesses with gender equity, energy efficiency, and climate resilience focus.[5]

3.2.3 Caribbean Development Bank

In 2020, the CDB (a GCF accredited entity) received approval from the Green Climate Fund for a programme benefitting Belize, Jamaica, and St. Lucia, called *"Transforming Finance to Unlock Climate Action in the Caribbean"*. **The programme aims to unlock the private sector investment needed to transform Caribbean productive sectors and energy systems by catalysing a transformation of finance.**

The programme is seeking to blend GCF and CDB resources to extend concessional lines of credit to Development Finance Institutions (DFIs), who in turn will on-lend to MSMEs and homeowners for climate action investments. It will simultaneously deliver technical assistance to facilitate programme lending and support the transformation toward climate-informed lending by Caribbean DFIs.

In delivering this support, the programme aims to:

- Achieve tangible results during its implementation period, both with regards to (a) increasing lending and investment as well as (b) reducing/avoiding greenhouse gas emissions and enhancing resilience to the incremental risks/challenges associated with climate change; and
- Equip Caribbean financial service providers and local private sector actors with the knowledge and capacity needed to enable the continued flow of financing for climate action investments after programme closure.

This initiative by the CDB is based on feedback from private sectors in the three participating countries which have identified climate related concerns as:

- Reliance on diesel imports
- Increasing intensity of extreme climate events
- Banks view of the private sector as high risk borrows
- Lack of access to financing by local private sector at necessary rates and terms
- Limited capacity of lenders to appraise climate related projects and,
- Lack of awareness among private sector of CC risks, mitigation need and business opportunities.[6]

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[5] https://www.facebook.com/149350998433745/posts/press-releasecaricom-development-fund-cdf-provides-us33m-in-concessional-support/2378384112197078/

[6] Application Title TRANSFORMING FINANCE TO UNLOCK CLIMATE ACTION IN THE CARIBBEAN Country/ Region Belize, Jamaica, St Lucia Accredited Entity Caribbean Development Bank Approval Date 20/09/2020

These are consistent with the findings of the McCall Survey referenced above.

Another important on-going private sector initiative (starting in 2017) and based in Jamaica, with a regional focus, is the GCF Readiness support for "*Mobilizing Private Sector to Support Low-Carbon and Climate Resilient Development in Jamaica and other CARICOM States*". This initiative arose from the regional recognition of urgent need to engage the private sector in climate action.

The support is being used to identify barriers to private sector investment; support the accreditation of selected private sector entities in the region; inform the best strategy for investment at the regional and country levels and promote south-south cooperation among other CARICOM States. including Guyana.[7]

The next section investigates specific barriers to private sector investments in climate related activity.

4.0 Barriers to Private Sector Investments in Belize's Climate Actions

Four major barriers to investments identified are:

I. Lack of accessible aggregated information i.e., hard data and other technical information; summarised key Government priorities etc.
II. Country and sector risk
III. Domestic capacity constraints
IV. Scaling issue related to matching investment opportunities to potential investors

4.1 Lack of Accessible Aggregated Information

According to the World Bank Group (WBG), in their report "*Enabling Private Investment in Climate Adaptation and Resilience*", past research has identified (amongst others) two key barriers to attracting the volume of private finance needed to advance most developing countries' adaptation and mitigation agendas. These are:

1) **lack of country-level climate risk and vulnerability data and information services** that can be used to guide investment decision-making and

2) **limited clarity on the government's capital investment gaps** to achieve adaptation goals, and/or on where private investment is needed.

We have previously referenced the Winston McCalla report (2019). The key take-away from that report was that **there is a disconnect between the public and private sectors with regard to information sharing and policy making** across the Caribbean region, including Belize.

This communication gap exists despite the fact that in 2016, Belize ratified the Paris Agreement, when the National Climate Change Office was established. Subsequently, the Belize National Climate Change Committee (BNCCC) was established as a broad-based multi-stakeholder committee comprised of non-state, public and private sector representatives. Besides these entities, the Belize Economic Development Council, is a public-private advisory body launched in 2011 and is comprised of 10 members including 5 senior representatives from the public sector and 5 senior managers from the private sector.

[7] BELIZE Country Strategy Framework including a Country Programme for engagement with the Green Climate Fund Final Version, June 2019

We can see that although there are a handful of dedicated public sector financed bodies which have been active for several years and that Belize has key National Development Contributions (NDCs) in place since 2016, **the climate adaptation and mitigation message has not been getting through to the domestic private sector in a coherent, actionable way**. We can further extrapolate from this observation that the external private sector will be even less informed about the potential investment opportunities arising from the NDCs.

4.2 Country and sector risks

One of the simplest ways of assessing country risk is by using the rating assigned to a country's debt by a specialist ratings agency e.g. Standard & Poors, Moody's and Fitch. These ratings measure debt default risk but as they are affected by many of the factors that drive equity risk – the stability of a country's currency, its budget and trade balances, forecasted GDP growth and political stability, they are important tools considered by both equity and debt investors.

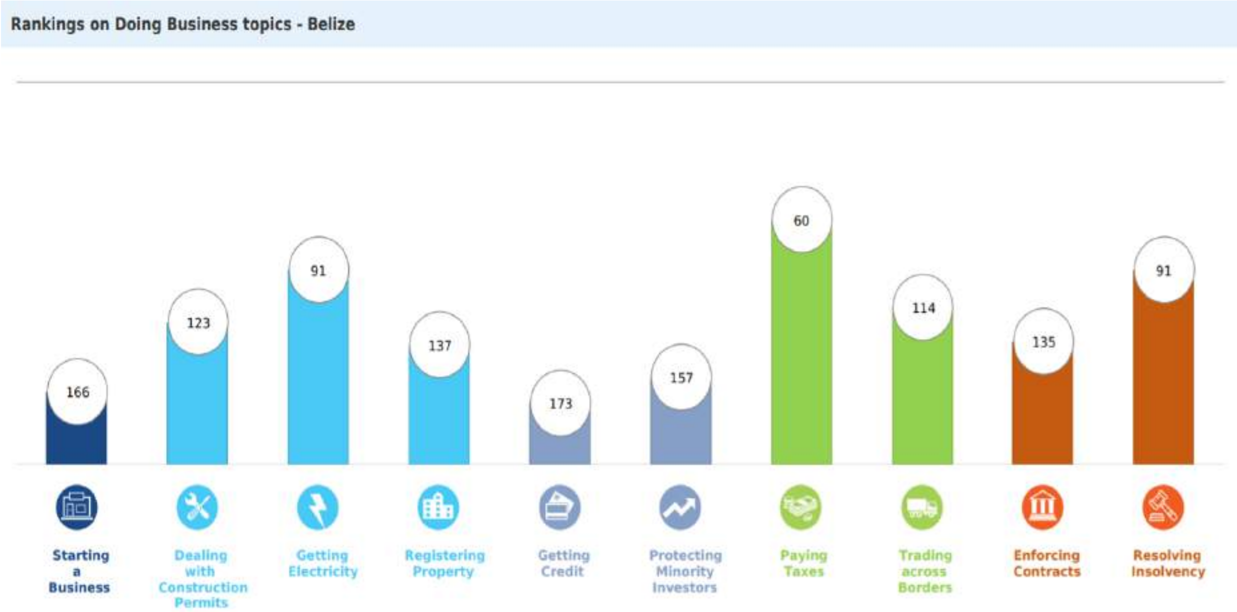
As a rule of thumb**, international investors in "emerging markets" will require a greater anticipated return on an investment to justify investment into countries and or sectors which are perceived as "high risk"**. Presently Belize's country risk is Caa3 (Moodys 11/2019 rating) which is considered below investment grade. This means that any direct investment opportunity must be obviously able to deliver adequate returns to any hypothetical investor. In drawing attention to the country risk concept, we have demonstrated that Belize could not presently be viewed as a "safe bet" from an international investment perspective.

We can now consider some individual sectors which have been prioritised as part of the Government's proposed climate change mitigation sectors, bearing in mind that the Government expects to have private sector capital as an important component of climate mitigation investments. Some of the key sectors identified for mitigation investments are: Forest & Land; Agriculture; Energy (including transport) and Waste. A microeconomic analysis of each of these sectors is beyond the scope of this document, however in an RMI document of 31/3/2021 '*Aligning Financing Options with the Climate Financing Strategies for Belize'*, some suggestions were made about how Government could best support the private sector. These are:

- Building up **local bank capacity**; this can incentivize private entities to make climate investments as specialist insurance and debt products will become more available.
- Ensure that there is an **adequate regulatory framework** for private companies who would wish to supply services and products e.g. electricity, water, waste disposal etc.
- Provide a **supportive regulatory environment** for public investment by passing the Public Investment Law, a national procurement law, and a public-private-partnership (PPP) law. Strengthening public investment can allow for leverage to strengthen and incentivize private investment, thus increasing Belize's range of financing options and
- Establish a national building code; this can support the adaptation target of improving building codes for health infrastructure, thus build resilience.

The above points give a clear indication that in addition to country risk issues, the regulatory environment is not particularly pro-business, nor is the banking sector presently capable of supplying complex financial products and services to support the climate investment agenda.

The RMI assessment is also captured in the latest WBG '*Doing Business 2020 Report'* which compares business regulations connected to "ease of doing business" in 190 countries. In this report Belize ranked 135 versus a score of 125 in 2018. According to this report, **Belize had a score of 72 out of 100 with regard to the ease of establishing a new green field business against a Latin America and Caribbean average of 79.** A summary table from this report follows.



Source: WBG Doing Business Report 2020

4.3 Domestic Capacity Constraints

From the table above, we can see that **two key issues are important. These are access to credit and protection of minority shareholders**. Credit is offered by commercial banks, credit unions, regulated moneylenders, and informal lenders. In commercial banks and credit unions, average annual lending rates ranged from 6.8 percent to 12.3 percent in 2019. Last year base lending rates at Bank of Belize (the largest commercial bank) were over 13%, which implies higher average actual lending rates.

While some regulations regarding strength of legal rights are present, the lack of a credit bureau or registry partially explains Belize's low performance in this ranking – see WBG table overleaf.

Getting Credit - Belize

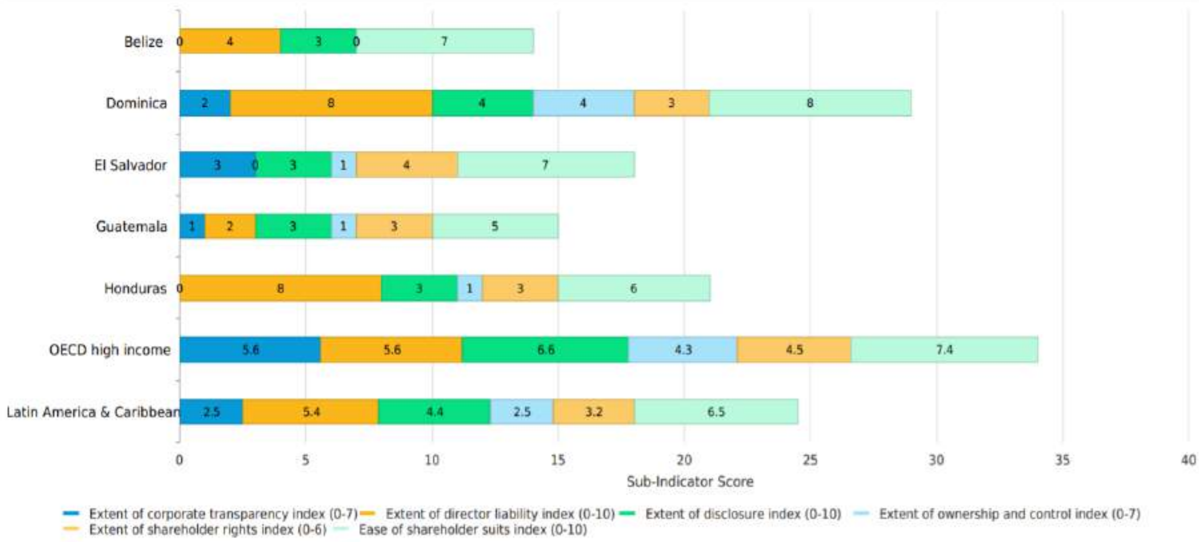
Indicator	Belize	Latin America & Caribbean	OECD high income	Best Regulatory Performance
Strength of legal rights index (0-12)	4	5.3	6.1	12 (5 Economies)
Depth of credit information index (0-8)	0	5.1	6.8	8 (53 Economies)
Credit registry coverage (% of adults)	0.0	14.6	24.4	100.0 (2 Economies)
Credit bureau coverage (% of adults)	0.0	47.6	66.7	100.0 (14 Economies)

Source: WBG Doing Business Report 2020

This means that **lack of access to credit, particularly for MSMEs may be a barrier to domestic entrepreneurship in the climate adaptation and mitigation arenas**. The extent of this problem is difficult to quantify because this information is not routinely recorded.

Another key item which was notable in the World Bank report was connected to **lack of legal safeguards protecting minority shareholders**. This would be a critical issue to resolve in terms of attracting new foreign direct investment. The Table below suggests that the lack of corporate transparency and director's liability are contributory factors.

Figure - Protecting Minority Investors in Belize and comparator economies - Measure of Quality



Source: World Bank Report Doing Business 2020

We conclude this section on domestic capacity constraints by reference to a UNDP's '*Catalysing Climate Finance'*(2011) which includes a "*typical barriers*" check list, many of which will be also relevant to Belize.

Key enabling conditions	Key stakeholders
Macro-economic conditions • Economic and political stability • Low restriction on foreign direct investment (FDI) • Import/export tariffs • Fossil fuel subsidies • Etc.	• National, provincial and local governments • International and national chambers of commerce and private sector association • Academia, civil society organizations (CSOs)
Institutional and Regulatory Conditions • Relevant institutions in place and with sufficient capacity • Ease of obtaining necessary permits and licenses • Legacy energy monopolies and policies • Etc.	• National, provincial and local governments • International and national chambers of commerce and private sector association • Academia, CSOs
Social and behavioural conditions • Size and demographic of skilled labour pool • Perception related to climate change, green energy and energy efficiency • Strength and capacity of civil society organizations, worker unions and citizen groups • Etc.	• Government education institutions, academia, trade unions, CSOs
Technical conditions • Condition of physical infrastructure • Presence of energy and natural resource management intermediaries (component suppliers, assemblers, operation and maintenance) • Existing green technologies under commercialization • Etc.	• Engineering associations, technical infrastructure departments, utilities, academia, international and national chambers of commerce
Financial conditions • Development status of financial markets • Access to project financing, financial de-risking tools (guarantees, hedging facilities) • Involvement of institutional and social investors in green technologies • Etc.	• Government financial institutions, banks, financial intermediaries; institutional investors, international and national chambers of commerce and private sector associations

Source: UNDP Catalysing Climate Finance, 2011

4.4 Scaling Issues

Belize has a population of about 420,000 and a low population density (about 37 people per square mile). Most of the population is concentrated in urban areas. It has a small, mostly private enterprise economy that is based primarily on agriculture, agro-based industry, and merchandising, with a tourism sector usually accounting for about 40% of the GDP. There are only a handful of domestic commercial banks operating in the country and it is estimated that the Bank of Belize (which is privately owned) has about a 65% market share of the domestic commercial banking sector, suggesting that there may be a lack of competition and that financial service costs are relatively high. According to the Belize National Financial

Inclusion Strategy, **only 66% of adults in Belize had a bank account and the interest rate spread was high at 7%** (2018). It is unlikely that these indicators have changed much, particularly under current economic conditions.

Following a GDP contraction of about 15% last year, the IMF has forecasted a 2021 GDP at $1.69 billion and it is anticipated that the Debt/GDP ratio could reach 133% this year.

Taking the above scenario into consideration, we can deduce that in an economy with a small population, high debt levels and relatively low levels of financial access and high costs of debt, that **the most appropriate type of private sector financial capital should be equity or some form of concessional debt** and that to avoid monopolies, that the scale and size (in $ value) of individual investment opportunities will be quite small.

This means that there may be a barrier to investment by larger external investors with large minimum mandatory investment units, **as there may be local "absorption" issues with large influxes of capital into the economy**. In a 2019 publication TCN/Environmental Finance, published results of a survey of global impact investors. They cited "*many private investors with an interest in natural capital are deterred from investing in this area by the difficulty of finding projects of a suitable scale, a lack of data to measure the impact of their investments and, in some cases, difficulties in working alongside government or other public sector investors*".

This creates a policy conundrum because the scale of the investment opportunities available to the private sector may suit cash rich domestic entrepreneurs, but conversely a lack of specialist in house or in country technical skills may act as barriers to investment. On the other hand, many larger international investors have appropriate "green" technical skills but cannot find right scale investment opportunities due to their often-larger scale investment criteria.

5.0 Removing Barriers to Potential Private Sector Investment

In the following sections we identify suggestions for removing barriers towards enhancing private sector investments.

5.1 Provision of Accessible Aggregated Information

In order to facilitate successful outcomes pertaining to collaboration with domestic and international investors, as well as providing a national database resource, we would recommend the creation of a dedicated Belize Government controlled "climate change" related marketing unit which could launch a dedicated website, equivalent to the NDC invest, (which is an IDB one stop shop wherein the IDB offers financial solutions and technical support).

However, in the proposed Belize instance we suggest that summary information on the recent history of the Government's activities for both mitigation and adaptation climate activities are presented – updated NDCs and Climate Finance Strategy, as well as a short list of climate change related priorities with project descriptions and funding required.

This internet portal can provide links to the relevant Ministries with responsibility for various aspects of the national climate change strategy. It can also act as a matchmaking service for Belizean private sector companies which are seeking to joint ventures with international partners for technical support and/or equity capital. Information about possible donor grants and other support, including technical support could also be listed here.

With regard to mobilising domestic investors and national awareness, a targeted media campaign through print, radio and television channels which would publicise the priority areas and sectors for investment identified by the new one stop shop unit could be launched.

In support of this new marketing portal, we believe that one of the Belize Banks – the National Bank of Belize should be recapitalised with an equity injection by the sale of a large minority position, ideally to a development bank. This would facilitate an inward transfer of skills and systems as well as equity capital. The National Bank of Belize could then be designated as the local "Green" Bank as partner for climate change or impact investments. It can also be a conduit for the sale of climate specialist insurance products by international insurance companies.

5.2 Derisking Country and Sector

We have previously mentioned that Belize's debt to GDP has deteriorated in 2019 due to the impact of CV19 which has had a devastating effect on the foreign exchange generating Tourism sector. International credit rating agencies have downgraded Belizean debt to below investment grade status. However, there are **credit enhancement techniques** and support available from the multilateral banks and donor country development agencies which can intervene to support Belize to support debt renegotiation and re-packaging.

Sector risk, including climate related risks can be minimised by having appropriate **specialist insurance products** available or accessible by having local agency agreements with specialist international insurance companies. It could be possible to make some of these products available via the National Bank of Belize or other suitable channels.

Additionally, it would be worthwhile given the WBG Doing Business 2020 score, for the Government of Belize to task the BNCCC to work with the local Chambers of Commerce to identify where there are shortfalls or gaps in domestic regulation which protect private sector business interests and to **upgrade the regulatory framework** accordingly. As Belize is a member of both CARICOM and the Commonwealth, it should be relatively easy to identify best practice within these groups and modify legislation for the local context.

5.3 Removing Domestic Financial Capacity Constraints

We have identified two key areas which need immediate action. These are related to the availability of financial capital, be they debt or equity. **Anecdotal evidence suggests that many micro, small and medium entrepreneurs use personal accounts and loans for their business purposes.** We have suggested that the National Bank of Belize have an equity capital injection (to bolster its balance sheet and make provisions for non-performing loans) so that it can be positioned as Belize's climate finance bank. It can be positioned to service the medium to large domestic companies. Micro and small sole trader type operations could be served by the Development Finance Corporation (DFC).

According to DFC's five-year strategic plan, "Strategy 2021: Building Resilience Against Climate Change & Economic Volatility" DFC will aim at mainstreaming gender and climate resiliency in all operations, provide co-financing and risk-sharing in projects with government participation through project financing and guarantees, and explore new products, including export finance, venture capital and other forms of equity financing.

The provision of equity capital from domestic sources is generally important for economic development. Having a domestic stock exchange is beneficial due to:

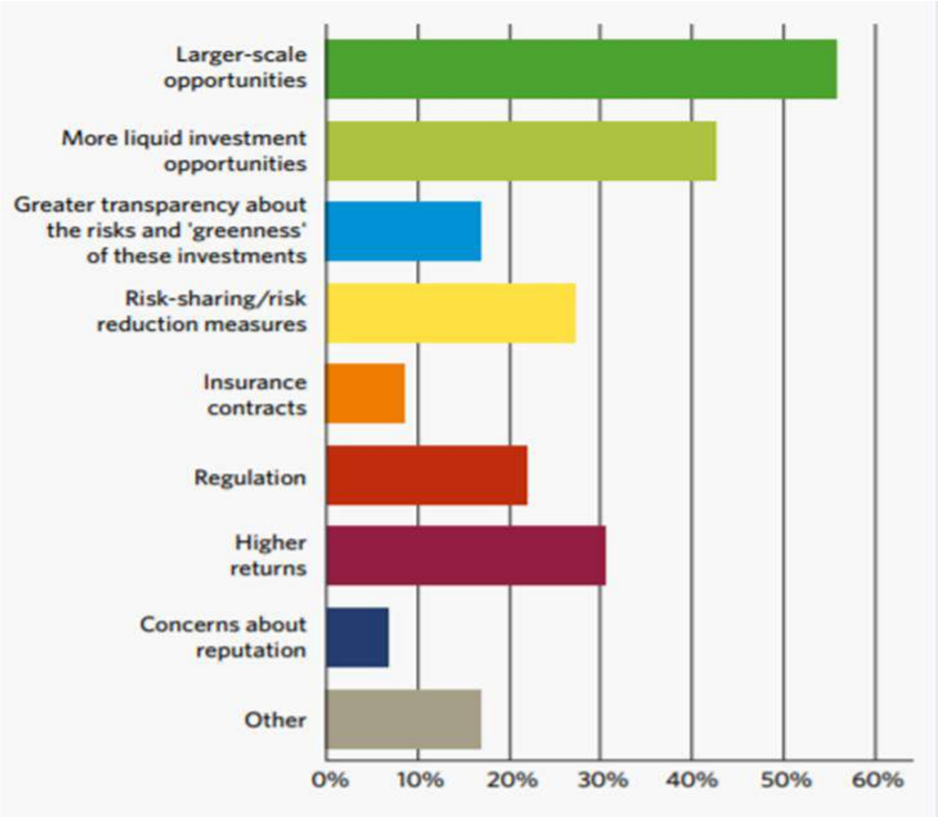
- Long term lower cost finance for entrepreneurs
- Portfolio diversification alternatives for institutional and private investors
- Investment opportunities to small savers
- Possible exit for FDI which comes into Belize as equity

In the short term it would be possible and relatively easy and inexpensive to create an over-the-counter (OTC) market for both debt and equity climate related instruments, on a matched bargain basis, which could be reported to, cleared and recorded by the Central Bank of Belize, which could act as quasi regulator in a confidence building exercise. Using this method will also make it easier to track the inward and outward movement of financial flows. In general, it would **be useful to examine whether changes to tax laws, regulation, or accounting rules could solve or substantially mitigate any problems of access to equity**, minority shareholder rights as well as the establishment of a domestic OTC market.

5.4 Right-Scaling

We have previously touched upon the conundrum of **right scaling investment opportunities** in the Belize climate impact arena. As far as stimulating interest from domestic entrepreneurs is concerned, access to information, credit and technical support are key. For foreign impact investors, the following table from TCN/Environmental Finance (2019) would be a good indication of the concerns of impact investors with substantial funds under management. These concerns are correlated with the four key impediments we have identified as potential barriers to private sector investment.

Figure 3: Factors likely to lead to more Investment in natural Capital – responses by asset owners and managers



Source: TNC/Environmental Finance Survey 2019

6.0 Potential Private Sector Investments towards NDCs

Strategic Direction #5 of Belize's draft Climate Finance Strategy seeks to promote private sector investments in climate actions. **The main targets are mitigation sectors including energy and waste.** This is to be achieved through leveraging commitments from MDB country support programmes, sustainable development interventions from other international development partners and using climate finance to reduce project investment risks. Equally important will be creative ways to attract private investment to support adaptation.

The following table presents generally recognized commercial opportunities relevant to the NDCs:

Energy

- Audits and Management systems
- Small-Scale "Embedded Generation" of RE located at residential, commercial or industrial sites. The renewable power is both generated and consumed on-site. These are mostly solar photovoltaic (PV) systems, but they can also be technologies related to wind (on coastal and elevated locations) and biogas, such as on farms.
- Biogas potential as a form of RE is understated in the NDCs. Anaerobic Biodigestion technology provides an integrated solution to waste management, renewable energy and food security, using the 'digestate' as a substitute for imported fossil fertiliser.
- Larger centralised "on grid" solar photovoltaic RE facilities supported by power Purchase Agreements
- Roof mounted solar thermal units (for hot water) especially for tourist related infrastructure
- Energy efficiency measures at appropriate urban 'built environment' – green buildings, integrated with water conservation and waste management.
- Energy efficiency within transmission infrastructure

Solid Waste

- Waste-to-Energy – organic waste recovery – biogas, pyrolysis
- Waste recovery, separation, recycling and reuse at source, diversion from landfill

Wastewater

Treatment, solids recovery and sludge digestion/biogas production (mentioned in Country Programme for engagement with the Green Climate Fund, 2019)

- **Agriculture/Food Security**
- Agro-forestry - silvopastoral practices that combine fodder plants (grasses and leguminous herbs) with shrubs and trees for animal nutrition and complementary uses
- Sustainable crop production and livestock management (integrated waste management/biogas – digestate reuse, as fertiliser to grow crops and substitute for imported fossil-based fertilisers)
- Agribusiness, Agri-processing and Agrifood chains for food security and nutrition
- Livestock production – with use of biodigesters to provide heat energy for animal processing and manure-based fertiliser for growing animal feed.
- Biochar plants (pyrolysis of biomass in the absence of oxygen used to improve soil use in agriculture)

Tourism

- Health and & Marine & Terrestrial Nature based Tourism

A detailed review of all the projects listed in the NDC Priority Actions (1 pagers) identified potential for local and international private sector investment in the NDCs. These are presented in Table 1 below

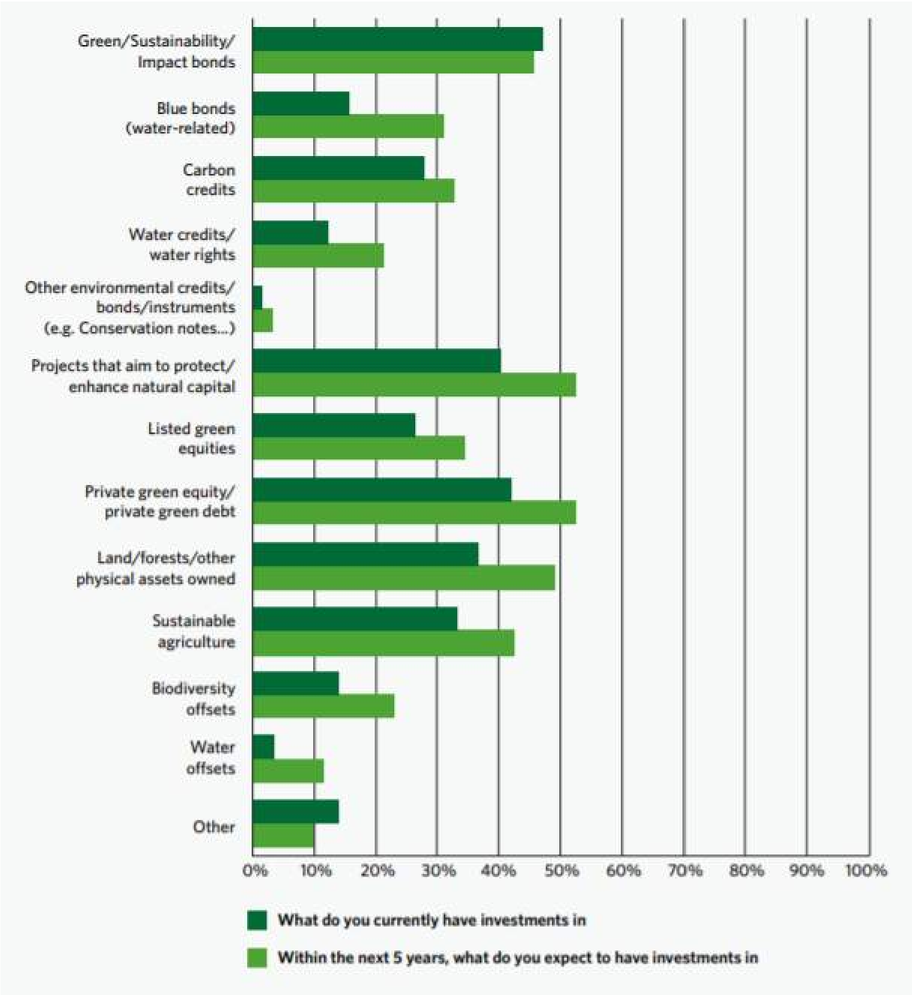
Table 1: Potential Private Sector NDC Project Investments towards NDCs

	Project	**Cost**	**Opportunity**	**Status**
	Sector - Agriculture			
1	Biochar Production	15M	Investment and equity (large)	Not implemented
2	Restoration of Riparian Forests in Watersheds	7M	Agroforestry (MSME)	Not Implemented
3	Resilient Rural Belize	20M	Agriculture (MSME)	Ongoing (2019-2026)
4	Developing & Enhancing Small scale Agri-processing capacity	TBD	Agro-processing	Ongoing (2017 -2019)
5	BCUL Green Finance	600K	Investment Agriculture & Fisheries (MSMEs)	Ongoing (start 2018)
	Sector - Marine Coastal			
6	Mangrove Restoration with Blue carbon Incentive	5M	Investment	Not Implemented
	Sector - Tourism			
7	Sustainable Tourism Programme II	7.7M	Cross-cutting Infrastructure, Solid Waste Mgmt. Overnight stays (MSMEs)	On-going (end 2022?)
	Sector - Energy			
8	Energy Resilience for Climate Adaptation	11.9M		Ongoing (2016 – 2022)
9	Belize Consolidated Plan	1.7M	Grants & Loans RE	
10	EcoMicro (DFC)	549K	Invest in RE & EE (MSMEs)	Ongoing (2019 2022)
11	Building Sector Reform	70K	Climate proofing, energy efficiency	Status ?
12	Belize Consolidated Plan	1.7M	Grants & Loans RE	?
13	Partnership for CARICOM Private Sector Development	2.1M	Capacity Building	Ongoing (start?)
	Sector - Waste Management			
14	Solid Waste Management Project II	10.2	Material recovery, recycling (MSMEs)	Ongoing (2019 2024)
	Sector – Business Development			
15	Compete Caribbean Partnership Facility	336K	Business development SMEs	Status?
16	DFC MBIL (EIB)	9M	Line of Credit	Status?
17	Transforming Finance to unlock Climate Action (Caribbean)	68M	Business development (loans) MSMEs	Belize, Jamaica, St. Lucia (feasibility study required to determine country allocations

Source: Compiled from Vivid's Priority Actions Report

Figure 4 below captures the activities which leading international impact and natural capital private sector investors consider as priority sectors for investment. We can see that green and sustainability impact bonds will remain an important component of their portfolio mix going forward. Also of note is the fact that blue bonds and other ocean/water related investment products are expected to grow in importance as part of future portfolio strategy.

Figure 4: Investors Current & Expected Future Investment Mix



Source: TNC/Environmental Finance 2019

7.0 Recommendations to use private sector investments to leverage climate finance access of Belize

As some of these recommendations have been described in detail in our Report 1, we shall restate some of these and other new points in short bullet point type action plans. In the present constrained global economy, we are focused on readily attainable outcomes, which build on existing capabilities and reach for the proverbial "low hanging" fruit.

General

Increase GoB capacity to collaborate with MDBs to influence the design of co-finance, blending and leveraging of CF to attract private investment.

Streamline and prioritise the GoB NDC targets to identify a handful of core investment activities which are most likely to provide returns which would attract private sector investors, both domestic and international.

Develop a one stop shop type marketing unit with a dedicated portal with content which informs local and international entrepreneurs about the climate change investment opportunities in Belize. Perhaps this could be supported by the Chambers of Commerce and PROADAPT.

Encourage MSME scale businesses to network on climate change opportunities. Such activities can be developed via the DFC and credit union type financial institutions and local municipalities. Sharing climate change related knowledge and skills can be facilitated by the formation of either formal or informal local co-operatives which can pool resources to access finance and develop projects. It is possible that the CDB has funds to support such an initiative.

Modify, enhance and upgrade domestic financial infrastructure by:

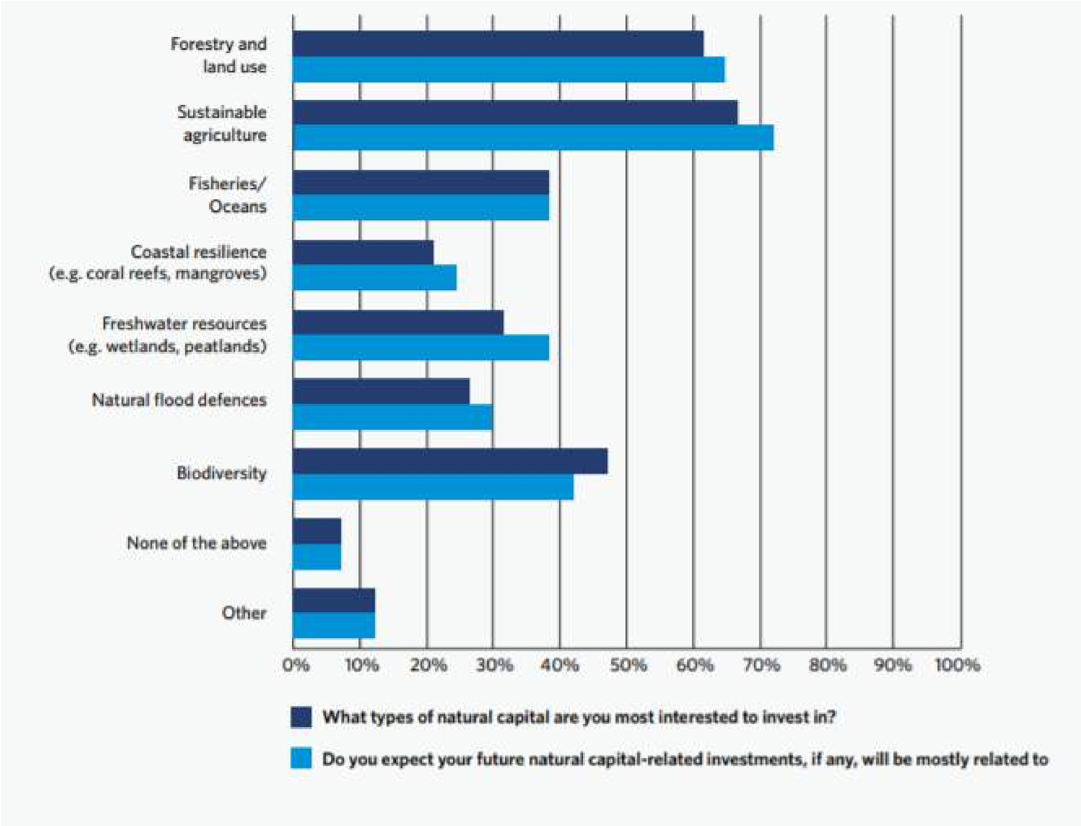
- Strengthening the capital base of NBB by selling an equity stake
- Designating NBB as the climate change bank for Belize
- Creating external networks by promoting Green Bank alliances
- Designating and training key personnel at NBB and DCF as climate change "champions"
- Develop a simple OTC (over the counter) exchange for debt and equity under the oversight of the Central Bank.

Priority financial instruments to attract Impact Investors

Match priority climate change products to investor priorities, Figure 5 below shows key areas which have been highlighted in a recent investor survey. We have previously recommended that Belize should focus on attracting equity and concessional debt given its present high level of indebtedness.

Based on Figures 4 and 5, we can see that there is considerable demand for so called green and blue bonds. In an exercise of giving investors what they want**, we believe that the issuance of blue and green bonds will be well received by the impact investment community**. We believe that Belize will have access to appropriate skills from well-known partners to assist in the issuance of such financial instruments, both of which can be used for debt restructuring and creating sources of Government backed capital to support local entrepreneurs.

Figure 5: Types of Natural Capital Attracting Most interest and Expected Future Investment



Source TNC/Environmental Finance 2019

Belize Blue Bond Belize's prosperity is intrinsically linked to its marine and coastal assets which contribute up to 22% of country GDP annually. The updated NDCs have prioritised planting additional mangrove and other coastal and reef protection type activities. We believe that the GoB can build on existing relationships and programmes with the World Bank to get technical, regulatory and financial support for such an activity. Additionally, the newly created Commonwealth Blue Charter initiative has established a Centre of Excellence in Oceanography and the Blue Economy at the University of West Indies Five Islands Campus in Antigua and Barbuda. This could be a very pertinent resource for helping Belize to devise, market and launch a blue bond initiative.

Belize Green Bond This can be done by piggybacking on the ECLAC Debt for Climate Swap Initiative. The ECLAC proposal involves the use of pledged funds from the Green Climate Fund (GCF) to write down public debt in Caribbean countries. Three pilot countries Antigua and Barbuda, Saint Lucia and Saint Vincent and the Grenadines are ready to initiate negotiations with creditors for the debt swaps. The proposal goes beyond a traditional debt restructuring, since it links debt relief to investment in sustainable development and green economy projects. We consider that it would be worthwhile for Belize to join this initiative as it has already been conceptually developed and is underway.

Targeting specialist equity funds and sector specialist companies The GoB has identified waste and renewable energy as key climate mitigation sectors. There are several Larin America and Caribbean specialist funds identified in the Appendix of our previous report which would be interested in investing in these sectors, depending on the scale and scope of the proposed investment. The issue will be to present projects which have been incubated and/or which have had preliminary feasibility work done on them to help fast track the due diligence for investment process.

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