



BELIZE

SELECTED ISSUES PAPER

November 2018

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SELECTED ISSUES

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Approved By
**Western Hemisphere
Department**

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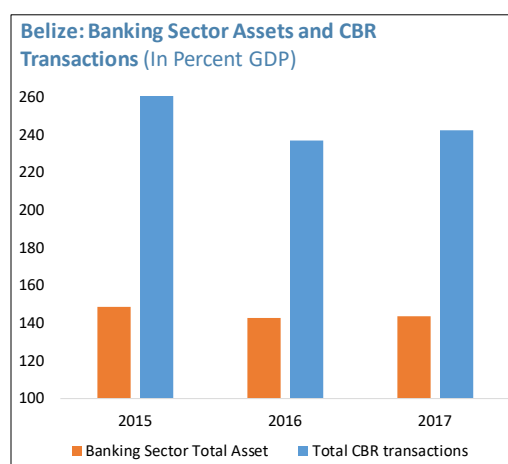
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BELIZE'S CORRESPONDENT BANKING RELATIONSHIPS: RECOVERY AND THE WAY FORWARD

A. Introduction

1. Belize lost 83 percent of its correspondent banking relationships (CBRs) during 2013-16. Correspondent banks terminated over two-thirds of their CBR accounts with domestic banks from mid-2015 to early 2016. The Central Bank of Belize (CBB) also lost two of its five CBRs. Out of the ten licensed banks, only one (Canadian) bank did not lose CBRs. The largest, indigenous bank lost all its CBRs. The offshore banking sector was particularly hit,¹ With most of the lost CBRs accounts denominated in US dollars. According to a study by the staff of the United Nations [Economic Commission for Latin America and the Caribbean \(McLean and others, 2017\)](#), the loss of CBRs in Belize resulted in cost pressures on the banking sector, difficulties in executing US dollar transactions, longer processing times and significant decline in the value of wire transfers, income losses to exporters and importers due to the inability to execute transactions, suspension of US dollar check clearing, and a shift in deposits away from domestic banks.²

2. The loss of CBRs had a significant impact on the economy, where CBR payment flows account for a high share of economic activity. The total value of CBR transactions fell from 260 percent of GDP in 2015 to below 240 percent in 2016. The loss of CBRs resulted in cost pressures on banks, challenges in executing US\$ transactions, including check-clearing, significant decline in the value of, and longer processing times for, wire transfers, income losses from the inability to execute transactions for exporters, importers and money transfer operators, increased compliance cost for AML-CFT, and a shift in deposits away from domestic banks (McLean and others, 2017). Banks have responded to CBR pressures by terminating relationships with clients from high-risk sectors and finding alternative ways of processing cross-border transactions.



3. The loss of CBRs is likely related to the low volume of transactions combined with the provision of offshore financial services by Belizean banks that heightens ML/TF risks and

¹ See the [2017 Selected Issues Paper](#) on “Recent Developments in Belize’s Financial System” for details of the loss of CBRs during 2013-16.

² McLean and others (2017) estimates suggest potential output loss of about 1 to 4.5 percentage points of GDP, on average, from 2017 to 2021 under a low CBR-stress scenario. The cost to strengthen AML-CFT compliance since mid-2015 ranged from US\$0.5 million to US\$2 million.

global banks’ perception that some banks in Belize are unable to properly manage those risks.

Some customers, business lines, markets and jurisdictions are evidently being perceived as too risky and costly in terms of compliance. Major correspondent banks have typically not provided specific reasons for the termination of the relationships. Correspondent banks perceive that some banks in Belize are unable to properly manage those risks and regulatory actions are not sufficient. Some customers (for example, licensed financial services with no physical presence, and entities with complex structures with lack of beneficial ownership information), and certain business lines are evidently being perceived as too risky and costly in terms of compliance, and are therefore being cut off.

4. More recently, all affected banks have found some replacements CBRs and alternative ways of processing cross border transactions.

Pressures from CBR withdrawal have relatively eased, but Belizean banks continue to rely on fragile relationships with small correspondent banks and remittance service providers. While Belize banks cannot increase the volume of transactions with correspondent banks to influence their profitability, they could certainly reduce the potential money laundering (ML) and terrorism financing (TF) risks, and improve its reputational risks by enhancing the AML/CFT framework which will ultimately reduce the cost of due diligence by correspondent banks. Belize could also revisit its business model in the offshore sector involving high-risk activities such as licensed entities with no physical presence and offshore companies with complex structures. The Central Bank of Belize (CBB) and the International Financial Services Commission (IFSC) should enhance their supervision of banks, financial service providers, and trust and company service providers³ to improve compliance with prudential and AML/CFT requirements. To prevent the misuse and enhance transparency of legal persons and arrangements established in Belize, efforts should be intensified to enhance the availability of beneficial owner information and timely access without impediments

5. This note assesses recent developments in Belize’s CBRs. It builds on IMF (2017, [Country Report No. 17/287](#)) by providing an update on the situation and offering perspectives on policy options for supporting the recovery in Belize’s CBRs. The paper addresses the following questions:

- How have CBRs evolved in Belize in recent years?
- What risks to CBRs remain and how could they affect economic activity?
- How has Belize responded to the loss of CBRs?
- What further steps could Belize take to address remaining risks and support CBRs?

6. The analysis uses a dataset based on a bank-level survey and the IMF staff’s minimum scope framework. Grolleman and Jutrsa (2017) developed a framework for CBR monitoring and analysis that could be used by central banks, consisting of two approaches: the minimum scope

³ Trust and company service providers involved in the establishment of legal persons and arrangements are licensed by the IFSC as registered agents.

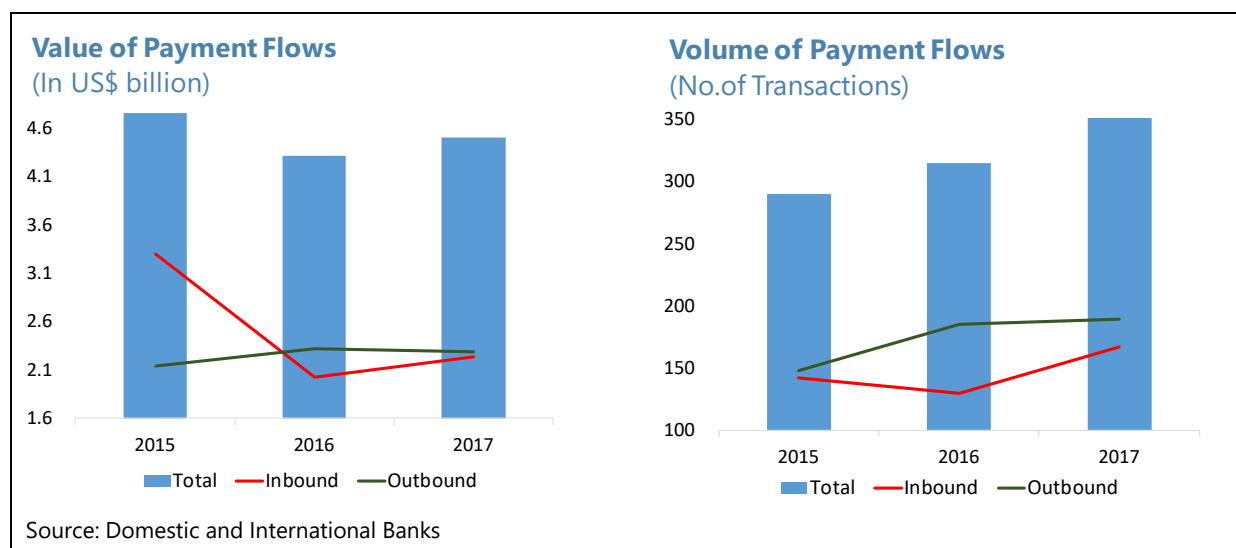
framework and the expanded scope framework. The minimum scope framework uses accounting data while the expanded scope framework uses SWIFT data for individual payments. This note adopts the minimum scope framework, using data from domestic and international banks gathered in collaboration with the Central Bank of Belize.⁴ It enables several analyses to be conducted, including the development in the number of CBRs and CBRs by institution, active correspondent banks, value and volume of transactions at a system level, the relative importance of different currencies in the payment flows, and the relative significance of correspondent banks.

7. The remainder of this note is organized as follows: Section II reviews recent developments in CBRs. Section III discusses the remaining risks to CBRs and how could they affect economic activity. Section IV takes stock of Belize’s efforts in response to the loss of CBRs, and Section V concludes with a discussion of further steps to address remaining risks and support CBRs.

B. How Have CBRs Evolved in Belize in Recent Years?

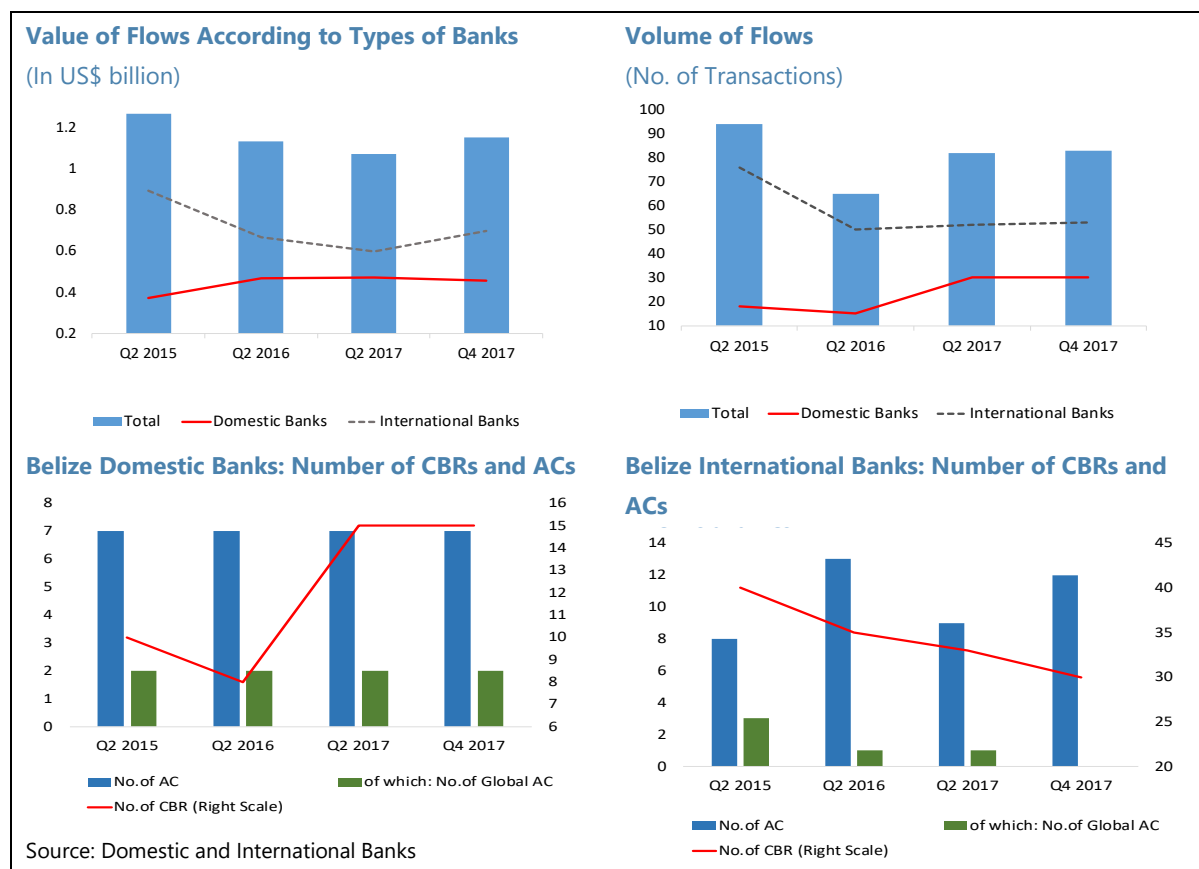
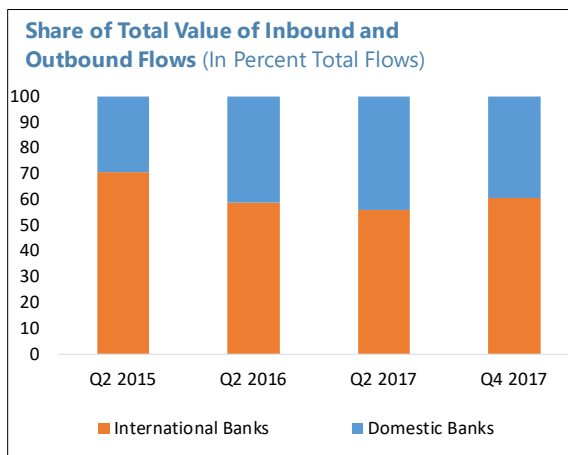
8. Pressures from the loss of correspondent banking relationships appeared to be easing.

The value and volume of total payment flows rebounded in 2017, driven by inflows. The total value of payment flows rose to US\$4.5 billion in 2017 from US\$4.3 billion in 2016 in line with a 29 percent (Y/Y) increase in the volume of total flows. Inbound flows, which are an important source of foreign investment, rose 10 percent (Y/Y) in 2017. Wire transfer fees at one of the domestic banks have reportedly increased from about US\$100 per transfer in 2015 to US\$300 per transfer in 2016, and to have declined to around US\$30-40 currently. However, maintenance fees with correspondent banks have reportedly increased slightly from about US\$140,000 per year in 2016 to US\$145,000 per year in 2017.



⁴ Belize’s banking institutions dominate the financial system, accounting for 93 percent of total assets in the financial system. Within banking institutions, domestic banks account for 61 percent of total assets while international banks account for 21 percent of total assets. There are currently five domestic banks and five international (offshore) banks. International banks are only permitted to take deposits and provide loans to non-residents.

9. Domestic banks' CBR activities are recovering. CBR payment flows continue to shift towards domestic banks from international banks. The total value of payment flows handled by domestic bank has increased significantly, reaching 40 percent of total flows by the fourth quarter of 2017, from 30 percent in the second quarter of 2015.⁵ The number of domestic banks' CBR accounts has also increased since the second quarter of 2016, and domestic banks were able to maintain their Global Active Correspondent Banks (ACs) throughout the 2015-2017 period.⁶ For international banks, however, the number of CBR accounts and Global ACs are declining as the value and volume of payment flows transacted via these banks appear to be weakening. In late 2017, one international bank lost its largest CBR.

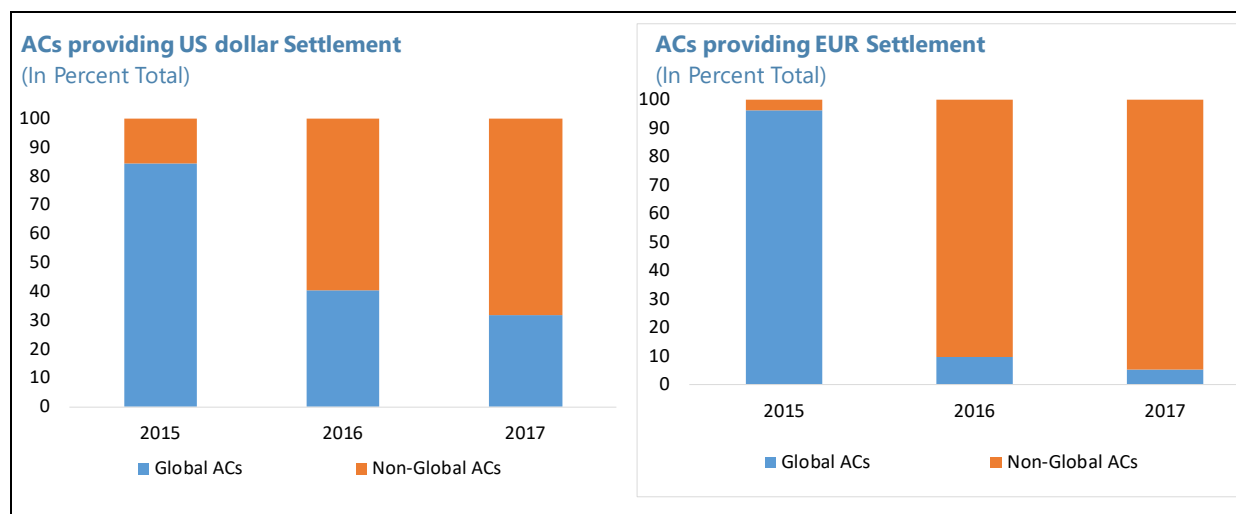
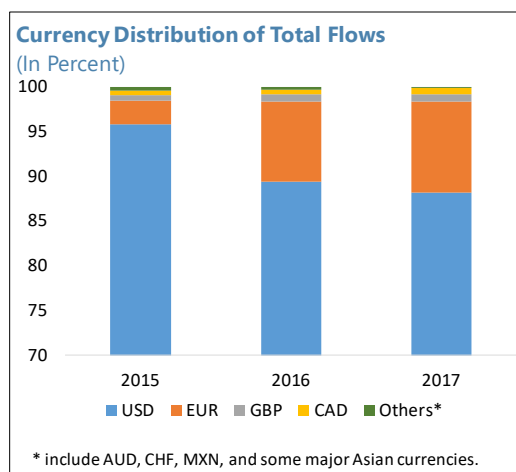


⁵ Based on end-2017 data, domestic banks comprise Atlantic Bank, Belize Bank, Heritage Bank, and Scotia Bank, while international banks comprise Atlantic International Bank, Caye International Bank, Choice Bank, and Heritage International.

⁶ An AC is defined as a correspondent bank which maintains at least one CBR with a respondent bank in the country. A correspondent bank maintaining CBRs with multiple domestic banks is counted as a single AC. Global ACs comprise corresponded banks that are listed as global systemically-important banks (G-SIBs) and domestic systemically-important banks (D-SIBs) in the USA.

10. The US dollar continued to dominate CBR transactions, but its share has been declining.

US dollar transactions accounted for 88 percent of total CBR flows in 2017, down from 95 percent in 2015. The share of Euro transactions has increased more than threefold since 2015 to 10 percent of total flows in 2017, at the expense of US dollars, indicating some switching out of US dollars due to CBR pressures in the banking system. Since 2015, the share of Global ACs providing US dollar and Euro settlement have declined significantly, replaced by smaller correspondent banks and nonbank payment service providers.



C. What Risks to CBRs Remain and How Could They Affect Economic Activity?

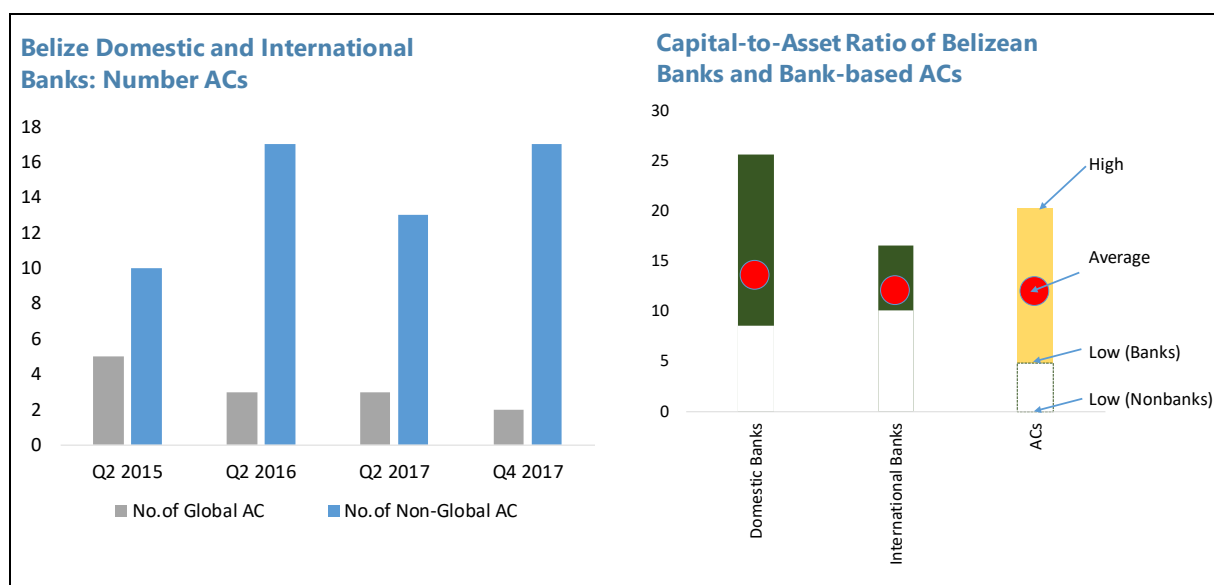
11. CBR pressures appear to be easing but risks remain. Risks include CBR counterparty credit risk and withdrawal risk, in addition to remaining supervisory gaps which could potentially add to CBR pressures.⁷

CBR Counterparty Credit Risk and Withdrawal Risk

12. CBRs with smaller correspondent banks and nonbank service providers could come with higher counterparty credit risk. Some banks are replacing lost Global AC accounts with relatively small banks and nonbank payment service providers. The number of non-Global ACs have

⁷ It is worth noting that correspondent banks may take into consideration the risk environment, and a respondent bank's size, customer base, business model, ownership and control structure, and the effectiveness of its compliance framework, in assessing risks associated with a specific CBR.

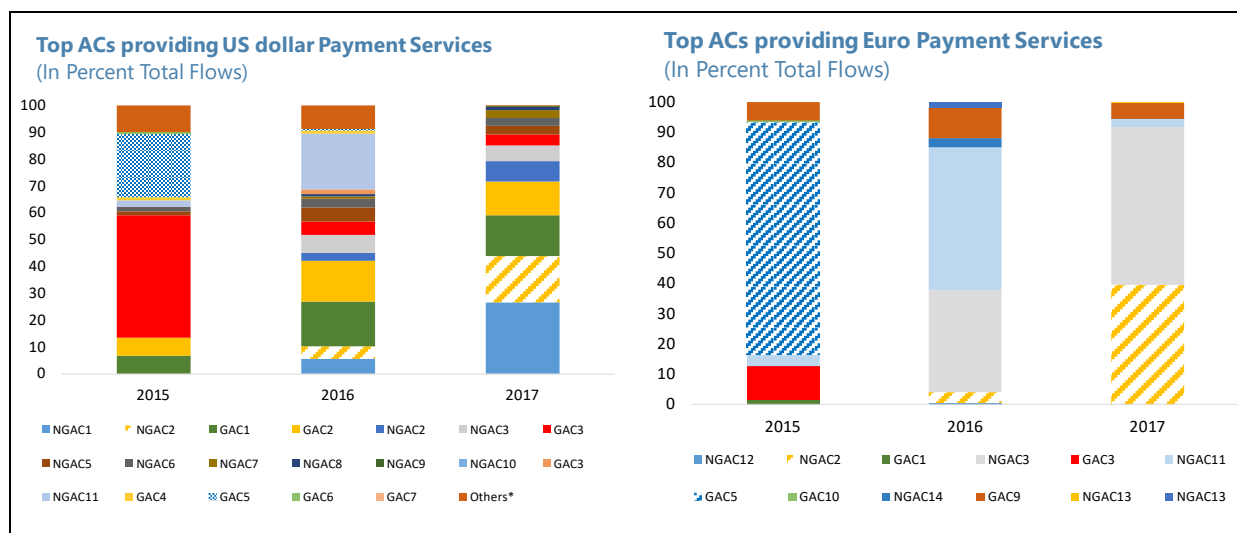
increased from 10 in the second quarter of 2015 to 17 in the fourth quarter of 2017 while the number of Global ACs have declined from 5 to 2 during this period. This indicates that some banks that have lost their CBRs with Global ACs have been replacing them with smaller correspondent banks and less known nonbank payment service providers.⁸ Services such as the acceptance of US dollar checks remain restricted. It is worth noting that some of these smaller ACs have capital ratios that are below Belizean banks and nonbank payment service providers are not subject to prudential capital adequacy requirements, thus have higher counterparty credit risks.



13. Concentrated reliance on the same correspondent banks could increase CBR withdrawal risks. Most Belizean banks rely on the same correspondent banks for payments in major currencies. In 2017, two banks which are non-Global ACs (NGAC1 and NGAC2) collectively accounted for around 50 percent of total USD settlement after a U.S. bank which is a global AC (GAC3) significantly reduced its services since 2016. For Euro payments, a non-Global AC bank (NGAC2) and a nonbank payment service company (NGAC3) collectively accounted for around 90 percent of total settlement in 2017, after a European global AC Bank (GAC5) and a U.S. global AC Bank (GAC3) withdrew their CBR services in 2016. High reliance on these few correspondent banks renders the banking system vulnerable to any broad-based withdrawal of CBR services by these correspondent banks.⁹

⁸ The major provider of the new CBRs, a UK bank, is an intermediary between Belizean banks and a major US Bank. It provides AML assurance to the major US banks, including through onsite inspections of respondent banks.

⁹ This could also increase financial stability risks. An increase in concentration could render banks more vulnerable to operational disruptions and failures since payment flows are channeled through smaller number of correspondent banks.



Note: GAC = banks that are Global Active Counterparties; NGAC = banks and nonbank payment service providers that are non-Global Active Counterparties. GACs comprise corresponded banks that are listed as global systemically-important banks and domestic systemically-important banks in the United States.

Risks Associated with Remaining Supervisory Gaps

14. Belize’s implementation of the AML/CFT legal and regulatory framework needs to be enhanced. With limited capacity, the CBB does not currently have in place sound and effective systems and tools for conducting AML/CFT risk-based supervision of domestic and international banks. In addition, the regulator for the non-bank offshore sector—the International Financial Services Commission (IFSC)—does not properly license, regulate and supervise non-bank financial institutions (“IFSC financial institutions”) and trust and company service providers (“TCSPs”). Furthermore, the beneficial ownership information of legal persons and arrangements is not always available and up-to-date. The Financial Intelligence Unit (FIU) is upgrading its systems to effectively process the analysis of suspicious reports and disseminate them to law enforcement agencies, but there is room to improve its overall effectiveness in producing financial intelligence. The system is not yet resulting in effective prosecution and convictions of money laundering and confiscation of illegal assets. Belize will undergo an assessment by Fourth Round of the Caribbean Financial Action Task Force (CFATF) in 2022. Weak assessment results could lead to listing of Belize and ultimately create significant reputational risks for Belize.

15. Remaining ML/TF risks should be addressed. Risks related to the misuse of IFSC financial institutions, legal persons and arrangements in the offshore business sector are important. The IFSC offers, through a high number of registered agents and their intermediaries abroad, the services of establishing complex entities without a proper mechanism to have the related beneficial ownership information available, accessed, and disseminated in a timely manner. The agency also licenses financial institutions (for example, foreign exchange, insurance, and trading service providers) without the requirement to have a presence in Belize. Some of those might be offering cryptocurrency services. While these services generate relatively low fiscal revenues, their lack of transparency and the possibility for them to hold accounts in Belize international banks or abroad

seem to create significant reputational risks for Belize. Finally, recent cases of drug trafficking activities in Belize raise risks that proceeds from those activities could be laundered through the banking sector.

16. The IFSC licenses financial institutions and TCSPs but does not sufficiently supervise them. In 2017, the IFSC introduced higher annual license fees for some of the IFSC financial institutions. The higher capital requirements reduced the number of some institutions while increasing the overall amount of capital requirements. This is mainly based on the higher capital requirement for trading in securities from USD 100,000 to 500,000. The total number of financial institutions decreased from 275 to 236. The overall regulation and supervision of the sector remain inadequate. Most of the financial institutions and TCSPs do not have a physical presence in Belize. Some of the institutions could be providing cryptocurrency services, which present ML/TF risks.¹⁰ Belize does not provide regulations for cryptocurrency services, and does not sufficiently supervise the sector, which could lead to misuse of cryptocurrencies without detection and sanctions. The pseudo-anonymous nature of cryptocurrencies, their potential for peer-to-peer transactions that avoid the use of intermediaries, and their cross-border reach make them particularly susceptible to use for criminal purposes.

17. IFSC TCSPs establish a relatively high number of legal persons and arrangements without holding their beneficial ownership information to prevent their misuse. Data on entities show a decrease of companies, foundations and trusts registered in the last two years. This might be the result of recent legislative amendments to the IBC Act (such as the prohibition of bearer shares and the requirement for registered agents to hold beneficial ownership information on their premises) and the reluctance of foreign banks to open accounts for Belizean companies. However, TCSPs involved in the creation of companies, foundations, and trusts are not properly monitored by the IFSC to ensure that they hold the beneficial owners' information they are involved in creating.

¹⁰ For a conceptual discussion regarding ML/TF risks associated with cryptocurrencies, and an overview of regulatory responses that countries have adopted to address such risks, see [He and others, 2016](#).

Type of licenses	Number of Licenses			Capital Requirement ('000)			Amounted Deposited ('000)		
	2016	2017	Mid 2018	2016	2017	Mid 2018	2016	2017	August 2018
Registered Agents	99	91	85	5	5	10	495	455	850
Trust Service	92	47	45	10	10	15	920	470	675
Mutual Funds Services	2	3	3	50	50	50	100	150	150
Asset Protection	16	14	10	25	25	25	400	350	250
Trading in Securities	108	92	65	100	100	500	10,800	9,200	32,500
Trading in Foreign Exchange	8	7	7	100	100	500	800	700	3500
Money Lending Services	1	0	1	50	50	75	50	0	75
Brokerage Consultancy	15	11	12	25	25	50	375	275	600
Safe Custody	1	0	0	25	25	50	25	0	0
Money Transmission	5	3	3	50	50	75	250	150	225
Money Broker	0	0	0	50	50	75	0	0	0
Money Exchange	2	1	0	75	75	75	150	75	0
Payment System	5	6	5	50	50	75	250	300	375
Accounting Services	0	0	0	25	25	25	0	0	0
Total	354	275	236	...			14,615	12,125	39,200

Source: Belize International Financial Services Commission
1/ As of August 2018

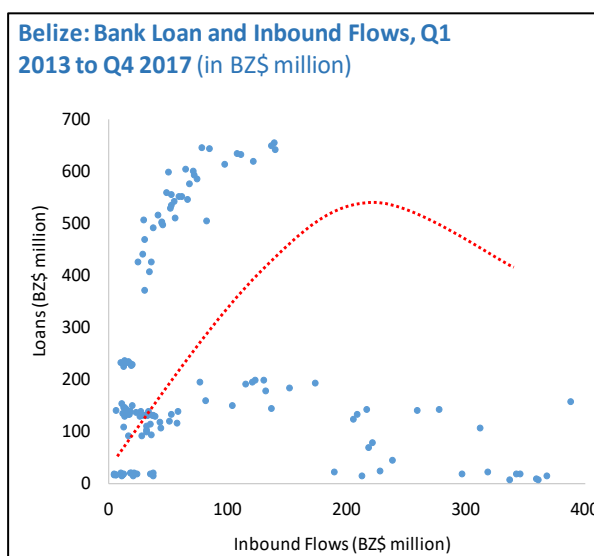
Belize: Number of Legal Persons and Arrangement Registered in the Offshore Sector				
	2015	2016	2017	End August, 2018
International Business Companies				
Incorporations	7,747	5,970	4,543	2,609
Total	63,478	55,867	49,157	42,392
International Limited Liability Companies				
Incorporations	80	64	86	86
Total	272	316	324	234
International Foundations				
Registrations	47	23	30	14
Total	197	220	233	235
Trusts				
Registrations	152	129	130	74
Total	1,829	1,712	1,833	2,064 1/

Source: Belize International Financial Services Commission
1/ 157 trusts were registered before 2018 but not included in the register.

Relation Between CBR Flows and Economic Activity

18. The importance of CBR in supporting economic activity and financial stability is highlighted in a number of studies. Correspondent banking, which enables the provision of domestic and cross-border payments, supports economic growth through international trade and cross-border financial activity, including remittances (Erbenová et al., 2016). A study by Baskaya et al. (2017) on Turkey suggests a positive relationship between capital inflows and credit supply, for larger, more capitalized banks.

19. To shed light on the influence of CBR flows on economic activity in Belize, this section analyzes the relationship between inbound payment flows on bank credit growth. A preliminary analysis using scatter plots of bank loans and inbound flows from Q1 2013 to Q4 2017, based on a sample of four domestic banks and four international banks in Belize, seem to suggest a positive and nonlinear relationship. As inbound flows increase, loans increase up to a turning point where it tapers off. This is in line with empirical findings on the trade-off between the positive impact of inflows on economic growth (through multiplier effects of consumption, investment, and development of the



financial institutions that handle the payments) and adverse effects of capital flows (which could lead to a real exchange rate appreciation in recipient country which could affect competitiveness and growth).

20. The analysis is based on two models:

- Model 1 provides a quantitative analysis on whether higher inbound flows will lead to higher loan growth in Belize, controlling for nonperforming loans (NPLs), using a panel regression analysis on four domestic banks and four international banks in Belize, from Q1 2013 to Q4 2017.
- Model 2 allows us to test whether there is a positive and nonlinear relationship between loan growth and inbound flows.

Turning to the specifics, Model 1 and Model 2 are represented by the following equations:

Model 1. $LOAN_{i,t} = \beta_1 NPL\ Ratio_{i,t} + \beta_2 INBOUND_{i,t} + \mu_t + \nu_i + \epsilon_{i,t}$

Model 2. $LOAN_{i,t} = \beta_1 NPL\ Ratio_{i,t} + \beta_2 INBOUND_{i,t} + \beta_3 INBOUND^2_{i,t} + \mu_t + \nu_i + \epsilon_{i,t}$

where:

$LOAN_{i,t}$	= Total loan in each bank
$NPL\ Ratio_{i,t}$	= The ratio of gross NPL to total loan in each bank
$INBOUND_{i,t}$	= Value of inbound flow in each bank
$INBOUND^2_{i,t}$	= Square of value of inbound flow in each bank
ν_i	= Period specific effect
μ_t	= Country specific effect

Note: The square of the value of inbound flow ($INBOUND^2_{i,t}$) allows us to capture nonlinearities and the effects of large inflows.

Estimation results

- **Higher inbound flows are associated positively with credit growth.** Model 1 and Model 2 yield three interesting results: The signs of the coefficients in both models are in line with empirical observations. The coefficient of NPL Ratio is negative, consistent with the negative effects of rising NPLs on loan growth as banks need to de-risk. The coefficient of INBOUND is positive, consistent with the positive relationship between inflows and intermediation of these flows as loan growth. The coefficient of $INBOUND^2$ is negative, reflecting the negative and

offsetting effects of excessive inflows on the economy and the banking sector which translates into a slowdown in lending.

- A \$1 increase in inbound flows is associated with \$0.17 percentage point increase in bank loans, based on Model 1.
- The negative coefficient of $INBOUND^2$ show diminishing marginal returns as the level of inflows increases and becomes large, reflecting the adverse impact of excessive inflows on the economy and the banking sector. However, the negative coefficient of $INBOUND^2$ is small relative to the positive coefficient of $INBOUND$, suggesting that the offsetting effects of large inflows on the economy and the banking sector is very minimal. This is in line with growth diagnostic studies which suggest that Belize needs FDIs to boost its economy.

Regression Analysis with Loan as Dependent Variable		
	Model 1	Model 2
Dependent Variable	LOAN	LOAN
NPL Ratio	-0.9294** (0.4594)	-0.7750*** 0.335088
INBOUND	0.1746* (0.0959)	1.1660*** 0.139783
INBOUND ²		-0.0026*** 0.000301
Constant	225.47*** (11.8175)	181.9103*** 11.25862
Bank Fixed Effects	Significant***	Significant***
Period Fixed Effects	Significant***	Significant***
Sample period	Q1 2013-Q4 2017	Q1 2013-Q4 2017
R ²	0.9799	0.9876
N	136	136

Note: Standard errors (in brackets) are clustered by bank and period. Sample consists of Atlantic Bank, Belize Bank, Heritage Bank, Scotia Bank, Choice Bank, Caye International, Atlantic International, and Heritage International Bank and Trust.

***p<0.01; **p<0.05; *p<0.10

21. There is a positive association between bank credit and economic growth. Empirical studies found sensitivities of real GDP growth to bank credit growth ranging from 0 to about 0.4—a 1 percentage point reduction in credit growth leads to 0-0.4 percentage points decline in real GDP growth.¹¹ In times of severe recessions, the sensitivity tends to be closer to the upper limit, whereas during normal times it tends to be closer to zero. The sensitivity also depends also on the degree of credit deepening.

22. Overall, these results are consistent with the view that the recovery in CBRs in Belize will support credit growth and economic activity. By the same token, an increase in pressure on CBRs constitutes a risk to growth.

¹¹ Estimates vary depending on whether the regressions focus on normal times or periods of financial distress. For instance, Driscoll (2004) finds no statistically significant effects, while Calomiris and Mason (2003) who study the real effects of credit supply shocks around the Great Depression find an elasticity of 0.4.

D. How Has Belize Responded to the Loss of CBRs?

23. The authorities have taken a number of steps to address the loss of CBRs. Parliament has adopted a number of pieces of legislation to strengthen the AML/CFT legal framework. Since the CFATF Mutual Evaluation Report was published in 2011, Belize has sought to address the gaps identified in its AML/CFT regime. Legislative changes began with the enactment of the Money Laundering and Terrorist (Prevention) Amendment Act 2013. The Amendment included provisions covering customer due diligence, record keeping and retention, reporting and internal AML/CFT control system. Further amending statutes followed in 2014 and 2015. Parliament adopted, in July 2017, amendments to the International Business Corporations (IBCs) Act, which prohibits the issuance of bearer shares in an IBC and provides for a Register of Directors and a Register of Beneficial Owners. The Parliament adopted, in August 2017, the Money Laundering and Terrorism (Prevention) Act and lowered the requirements of a proceed of crime from a qualified ‘serious crime’ to an ‘offence’ against any Belizean or foreign criminal law. In addition, reporting entities were required to terminate their relationship with customers when ongoing monitoring is not possible.

24. An ML/TF National Risk Assessment (NRA) is under way. This exercise, the first in Belize, is led by the National Anti-Money Laundering Committee, and coordinated by the FIU. The NRA could assist in identifying the high-risk sectors and business activities, and help in allocating resources to manage and mitigate risk exposure. With the support of the IADB and the World Bank, an expert was brought in from the FIU of Trinidad and Tobago to assist for 6 months. The authorities are also receiving technical support from the US Treasury to improve the capacity of the FIU. The NRA report—part of the preparation for the Fourth Round of the Caribbean Financial Action Task Force (CFATF) Mutual Evaluation is expected to be completed in early 2019.

25. The IFSC took some actions to regulate the offshore sector but important vulnerabilities continue to exist. The IFSC conducted an internal restructuring and initiated some inspections of financial institutions and TCSPs, but licensing, AML/CFT supervision, and enforcement for breaches is still overall weak. Some financial institutions could be providing crypto currency services abroad, which could increase the risk in the sector.

26. The Central Bank conducted AML/CFT inspections of some banks and credit unions but overall supervision requires further enhancement. CBB inspected one domestic bank, three international banks, and two credit unions in 2018. Compliance with preventive measures including proper customer due diligence and reporting suspicious transactions is slightly improving but is not yet effective to manage and mitigate the risks.

E. What Further Steps Could Belize Take to Address Remaining Risks and Support CBRs?

27. The remaining risks to CBRs need to be tackled on multiple fronts. Decisions to end CBRs are in part driven by the correspondent banks’ assessment of the risks and profitability of the CBR. While Belize has limited scope to directly influence the volume of transactions with

correspondent banks, it could reduce the transactions-related risks by further strengthening the AML/CFT framework, and the prudential and AML/CFT supervision of banks. Such actions would help reduce the cost of due diligence by correspondent banks. In this context, sharing the results of the NRA that will identify ML/FT risks to which Belize is exposed with the private sector is an important step. Furthermore, having accurate and up-to-date beneficial ownership information of legal and persons established in Belize is critical. Stronger AML/CFT regulation and supervision by the CBB and the IFSC should center around a forward-looking risk-based assessment. This should be coupled with enhanced communication by the authorities and Belizean banks and reporting of suspicious transactions to the FIU.

28. Stricter licensing and proper oversight of the offshore sector would reduce ML/TF risks. The authorities should conduct a cost-benefit analysis of the sector. The NRA should also focus on the risks related to the offshore sector. In the meantime, IFSC's financial institutions and TCSPs should be subject to proper licensing requirements, including by having physical presence in Belize. This should be coupled with higher licensing and capital requirements for IFSC licensed entities and higher fees for the registration of legal persons and arrangements. The increased revenue of the IFSC would enhance its independence and capacity, and allows it to enhance its supervision of the sector. The authorities should also consider introducing taxation for registered entities. Finally, the IFSC should ensure effective implementation of a broad range of sanctions against licensed entities that are dissuasive and proportionate to the severity of the AML/CFT violations. To the extent the IFSC lacks the capacity to manage risks associated with IFSC licensed entities providing high-risk services, such as operators providing crypto-currency services, they may need to withdraw the license to mitigate related risks

29. Ensuring the availability and timely access to beneficial ownership of legal persons and arrangements established in Belize would limit the opportunity for their misuse, and improve the transparency and the reputation of the sector. The NRA should include a risk assessment of the ML/TF risks related to misuse of those entities, and the results should be communicated to relevant stakeholders. Based on forthcoming IMF technical assistance recommendations, the authorities should expedite amendment of necessary legislation and effectively implement them to allow timely access without impediments to adequate, accurate, and current information on beneficial ownership of all types of entities created in Belize. Amendments would also be required to upgrade the LLC, trust and non-profit organization acts with international standards. IFSC should ensure that legal persons and arrangements are registered through registered agents and trust providers licensed in Belize. Those agents should be effectively monitored to ensure that they properly identify their clients and beneficial owners and conduct ongoing customer due diligence (CDD) to keep the beneficial ownership available and up-to-date. Dissuasive sanctions should be imposed on registered agents and trust providers in breach of the upgraded legal framework. In addition, the CBB should focus its supervision of banks to ensure that they conduct proper verification of beneficial ownership information and proper CDD of their clients. More rigorous CDD by banks to ensure availability of beneficial ownership information that can be shared with correspondent banks in a timely manner is crucial for strong relationships. The authorities should also consider establishing a register for beneficial ownership information of legal persons and

arrangements that contain accurate information. Operationalizing a register for beneficial ownership information to the public would allow correspondent banks to access the BO information, when needed, and reduce their cost of compliance. Such action would also enhance the reputation of the sector.

30. Enhancing AML/CFT supervision of banks based on risks, especially in the offshore sector, and imposing enforcement measures when breaches are identified is essential. The CBB should continue to enhance its capacity to implement a risk-based approach to AML/CFT supervision and impose strict and prompt sanctions when necessary. Supervision should focus on risks, especially those related to the offshore sector. CBB offsite monitoring and onsite inspections should ensure that banks properly identify and verify the identity of their clients and have the beneficial ownership available, especially in relation to IFSC offshore sector (for example, licensed entities, IBCs, and trusts). To the extent Belizean banks lack the capacity to manage risks associated with certain high-risk businesses related to the offshore center, including operators providing crypto-currency services, they may need to terminate such business applying a risk-based approach, so as to maintain their CBRs.

31. Continued awareness by the private sector on the importance of transparency and compliance with CBR-related disclosures is important to sustain the recovery of CBR. A report from Standard and Poor's indicated that access to CBR and financial services by small and medium enterprises (SMEs) remained limited.¹² Findings from the authorities suggest that one of the reasons is the unwillingness of some SME owners to disclose information that satisfies CBR requirements. As such, communications and consumer education are important in the implementation of regulatory expectations and promoting private sector understanding of risks and the need for implementing risk management systems, and enhancing transparency and disclosure to comply with CBR requirements.

32. Enhancing Belizean banks' capacity to manage risks is an immediate priority. Enhanced communication between correspondent banks and Belizean banks would foster a common understanding of risks, and clarify global banks' risks tolerance policies, or their reason(s) for terminating CBRs. Correspondent banks could usefully issue policy statements on transactions that are considered high risk, and provide technical support to Belizean banks where necessary to strengthen risk management. Belizean banks are encouraged to take advantage of a planned capacity building program by the Caribbean Development Bank (CDB) to address increasing requirements for customer due diligence and transaction monitoring.

33. Technological innovations, aimed at reducing cost and managing risk, could be considered. Emerging technology solutions (blockchain and Fintech) could provide a more efficient alternative to CBRs for carrying out cross-border transactions. However, these largely untested technologies, which are being explored by correspondent banks, seem more likely to be a longer-term solution. These new technologies will need to be brought under the regulatory and supervisory perimeter of the authorities.

¹² See S&P Global Ratings: Belize, August 28, 2018.

Annex I. Prioritized AML/CFT Reform

Actions	Priority
<p>Assessing and Understanding ML/TF Risks</p> <ul style="list-style-type: none"> i. Improve the assessment and understanding of ML/TF risks, particularly those related to the offshore sector (for example, IFSC licensed entities, cryptocurrency, legal persons and arrangements) ii. Communicate and share the key results of the NRA with the relevant stakeholders and the private sector. 	<p>Medium Term</p> <p>Medium Term</p>
<p>IFSC Supervision of licensed financial institutions and TCSPs:</p> <ul style="list-style-type: none"> i. Require physical presence, and enhance the licensing controls (i.e., fit and proper tests) of licensed entities to prevent criminals and their associates from holding or being beneficial owner(s) of a significant or controlling interest of holding management function. ii. Improve the IFSC capacity to properly supervise entities to ensure compliance with AML/CFT requirements: <ul style="list-style-type: none"> - Supervision of licensed financial institutions should improve the understanding of related risks, and improve compliance. - Monitoring of TCSPs should focus on the availability and timely access to beneficial ownership information. iii. Ensure effective implementation of a broad range of sanctions against IFSC licensed entities that are dissuasive and proportionate to the severity of the AML/CFT violations. 	<p>Short term</p> <p>Short term</p> <p>Short term</p>
<p>CBB supervision of banks</p> <ul style="list-style-type: none"> i. Improve the CBB identification and understanding of ML/TF risks and controls, and develop further the risk-based approach tools for offsite and onsite supervision (with a focus on international banks, BO, and high risk related requirements). ii. Ensure effective implementation of a broad range of sanctions against banks that are dissuasive and proportionate to the severity of the AML/CFT violations. 	<p>Medium term</p> <p>Medium term</p>
<p>Entity Transparency and availability of beneficial ownership information</p> <ul style="list-style-type: none"> i. Amend the LLC, foundation, and trust Acts to require BO info. ii. Create an open register for beneficial ownership information. iii. Ensure robust implementation of sanctions against persons who do not comply with the (basic and BO) information requirements 	<p>Short term</p> <p>Long term</p> <p>Medium term</p>

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