

# PRIVATE SECTOR ASSESSMENT OF BARBADOS



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## Executive summary

The Private Sector Assessment Report (PSAR) for Barbados provides a comprehensive overview of the country's private sector. It draws on both primary and secondary data sources. Primary data analyses were derived from interviews with key stakeholders from the domestic private and public sectors as well as interviews with regional and international agencies. A listing of the main stakeholders interviewed is documented in the original country reports.<sup>1</sup> Secondary data were utilised to describe the state of the country at both the micro and macro levels. In addition to these specific elements of the research, the development of the PSAR was assisted by consultations organized under the Caribbean Growth Forum<sup>2</sup> (CGF) banner.

The PSAR evaluates the primary components of the productive sector, the key challenges to private-sector development, potential emerging sectors and policy recommendations for priority areas. It is envisioned that the document can be used as a launch pad for multi-sectoral and inclusive discussions on the key issues impacting private-sector development and how they should be incorporated into the national agenda.

Barbados is a small, open economy with a comparatively high level of economic development by the standards of Caribbean countries. The island nation has a relatively undiversified production and export base, and depends on imports to supply most of the goods and services required for production. In recent years, however, Barbados has been significantly affected by the global economic downturn. The rate of real GDP growth remains below the country's long-term average, and unemployment is almost 5% higher than pre-crisis levels. The slowdown in domestic and international economic growth has significantly weakened demand for most domestic businesses.

Despite these challenges, Barbados maintains an open, well-regulated and transparent environment for doing business, with high-quality institutions. The country's government effectiveness ranking in the World Bank's Worldwide Governance Indicators is among the highest for small-island developing states. Furthermore, a strong Social Partnership between the government, the private sector and trade unions is a key aspect of efforts to improve productivity and boost the country's economic performance.

The private sector employs around 93% of the population in Barbados, and is dominated by the services sector, which contributed nearly 83% of GDP in 2012. Tourism is the main driver of activity in the services sector, accounting for roughly three-quarters of services exports. The strong contribution of services to

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<sup>1</sup> The original reports can be found on Compete Caribbean's website: <https://www.competecaribbean.org>.

<sup>2</sup> The CGF is a facilitated methodology for public-private dialogue around issues central to private-sector development and growth. It brings a non-traditional approach to the greatest challenge currently faced by the region: creating sustainable and inclusive growth. The Forum also aims to facilitate an action-oriented dialogue around key policy reforms needed across three thematic areas: investment climate, skills and productivity, and logistics and connectivity. The CGF is a joint initiative by the Compete Caribbean Program, the Inter-American Development Bank, the World Bank and the Caribbean Development Bank. It is supported by Foreign Affairs, Trade and Development Canada, the United Kingdom's Department for International Development, the CARICOM Secretariat and the University of the West Indies.

the economy is in part a reflection of a decline in the fortunes of agriculture (notably the sugarcane industry) and manufacturing. The PSAR identified the following emerging sectors as having growth potential: tourism, international business and financial services, alcoholic beverages, education and green energy.

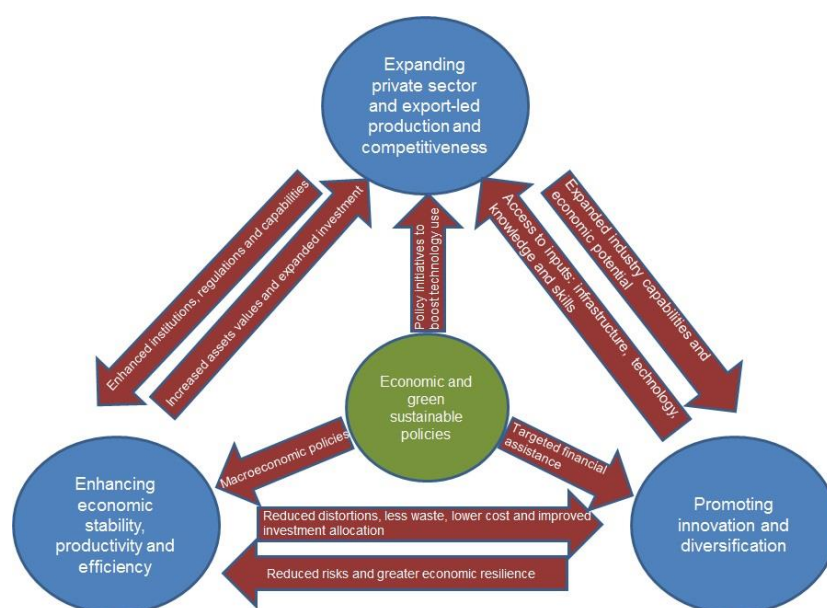
A number of structural issues constrain economic growth on the island. The main issues identified by private-sector officials were: (1) public-sector productivity, (2) research and development (R&D) activity by the private sector and (3) finance for start-ups. Additional challenges to private-sector development include taxation, innovation and labour market rigidity.

The Barbados PSAR concludes that the Social Partnership between the private sector, government and trade unions is the best institutional arrangement to address the key hurdles to private-sector development. The report's priority action plan urges that the relevant actors take steps to address public-sector productivity, stimulate R&D activity by the private sector, promote finance for start-ups, simplify taxation and reduce labour market rigidity.

# I. Private sector assessment

**Background** The long-term development policy framework for Barbados has historically been underpinned by policy documents known as development plans. These plans outline the long-term vision for the island and the policy framework to achieve these objectives. The most recent, the Barbados Growth and Development Strategy 2013-2020 (Government of Barbados, 2013), is underpinned by the country's long-term goal which is to become "A Fully Developed and People-Centred Society, through New Development Pathways". The macro-growth and development model underpinning this strategy is strongly private sector led (see Figure 1).

**Figure 1: Macro-growth and development model**



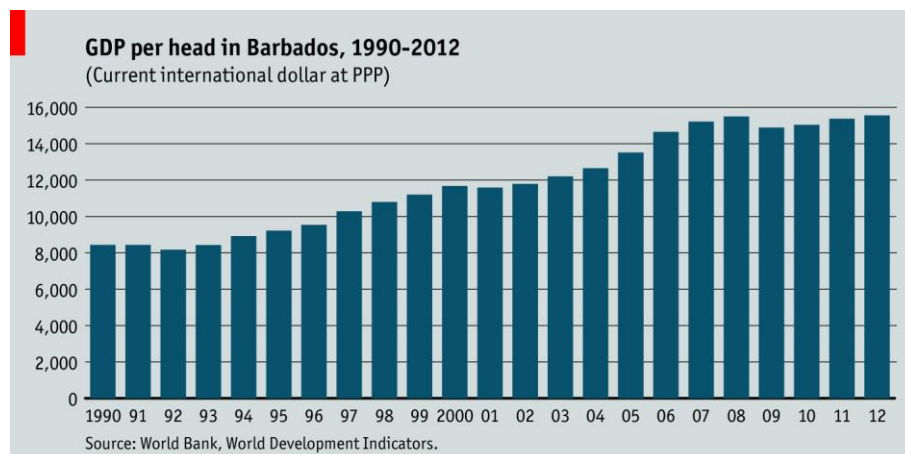
According to the strategy, "The macro-growth and development model will be foreign exchange and private-sector led, based on a sustainable expansion in foreign and domestic public and private investments and foreign and domestic borrowing. Additionally, the macro-growth and development model will seek to increase investor and consumer confidence; increase exports in a sustainable manner and dampen import demand by import substitution policies. The model will be technology driven while seeking to develop entrepreneurship through the development and expansion of the small and medium-sized enterprise sector. Lastly, demand-side driven policy initiatives in the model are balanced against supply-side policy initiatives, the latter which focuses on issues of efficiency, cost and price competitiveness and productivity in the use of labour, management, capital and technological resources"<sup>3</sup>

<sup>3</sup> Barbados Growth and Social Development Strategy 2013-2020 (2013), p. 20

## Macroeconomic overview

Barbados is a small, open economy with a relatively high level of economic development. In 2013 the total nominal value of goods and services produced was US\$4.2bn, and GDP per head stood at US\$15,373, one of the highest levels among the comparator countries<sup>4</sup> (see Figure 2). Since 1972 Barbados has had a firm policy commitment to maintaining a fixed exchange rate, with the Barbadian dollar pegged to the US dollar at the rate of BBD\$2:US\$1.

**Figure 2**



The economy of Barbados has been almost stagnant over the past two decades, with growth averaging just 1.4% per year between 1995 and 2013—much lower than the comparator countries' average rate of 3.2%. GDP rose slightly, by 0.2%, in 2013 after posting zero growth in 2012. The average growth rate masks two periods of robust growth (in 1997-98 and 2005-06, when growth averaged around 5% a year) and also two periods of poor growth or contraction (in 2001-02 and from 2009 to date) (see Figure 3).

Inflation in Barbados tends to be relatively low. Over the past 25 years the average annual rate of inflation has been 3.6%, compared with an average of 8.8% in a group of the country's peers (see Figures 4 and 5). From 2005 until recently, however, inflation was above its historical average of 2-3%, and reached 9.4% in 2011, largely due to rising food and commodity prices. However, after averaging 4.8% in 2012, consumer price inflation moderated to just 1.8% in 2013.

<sup>4</sup> The comparator countries consist of the 15 beneficiary countries of Compete Caribbean (Antigua and Barbuda, the Bahamas, Barbados, Belize, the Dominican Republic, Dominica, Grenada, Guyana, Haiti, Jamaica, St Lucia, St Kitts and Nevis, St Vincent and the Grenadines, Suriname, and Trinidad and Tobago), together with Palau, Mauritius, the Seychelles and Malta.

Figure 3

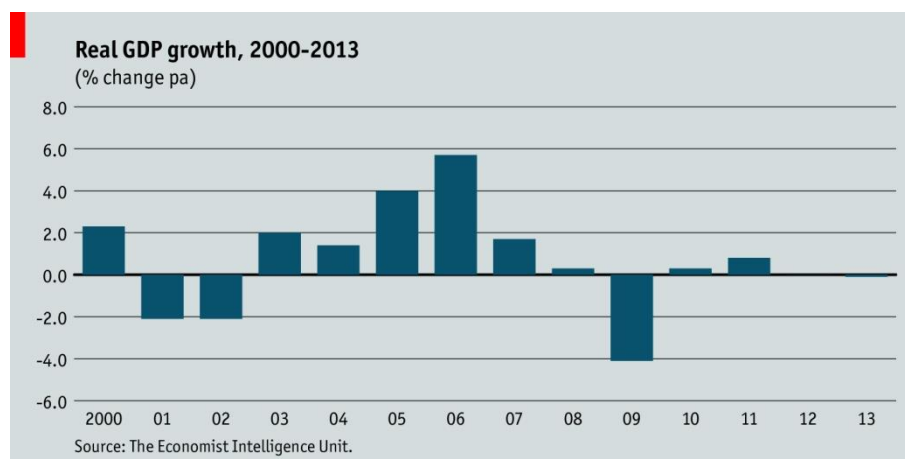


Figure 4

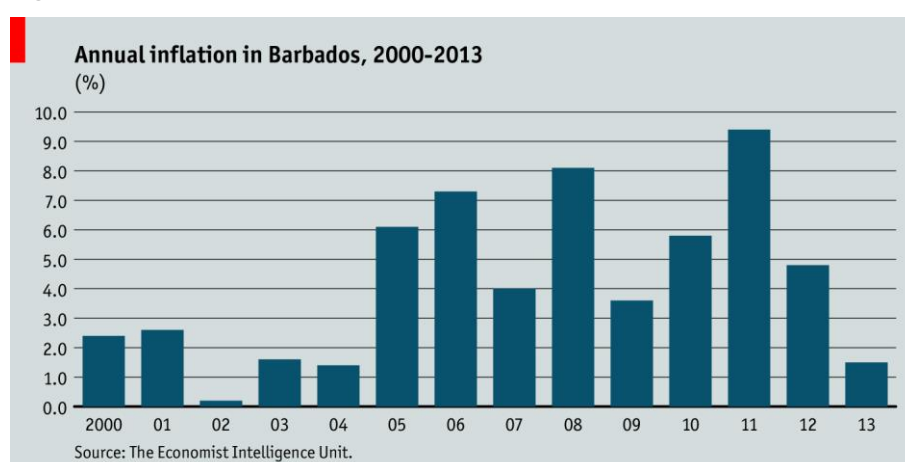
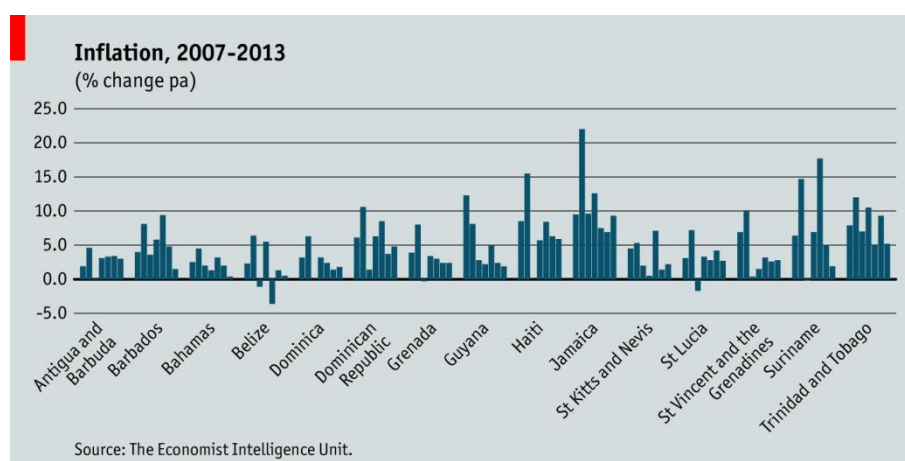


Figure 5

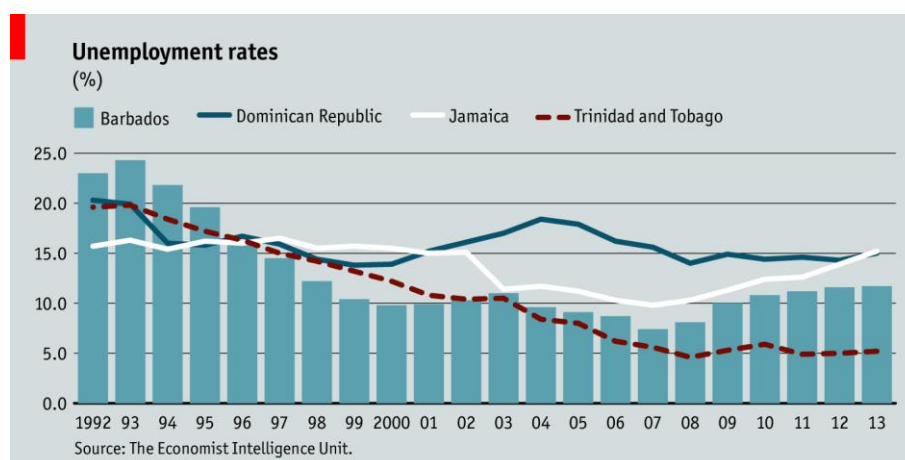


Barbados faces a stubbornly high rate of unemployment. Of a total labour force of 142,900, unemployment reached 11.7% in 2013, up from 7.4% in 2007, and is a particular issue among those workers aged 25-44 years (see Figure 6). While it is expected that unemployment will decline as economic growth recovers, greater



efforts will be needed to increase labour market flexibility in order to address the high level of structural unemployment.

**Figure 6**



Barbados has a relatively undiversified production and export base. Like most small states, the island depends on imports to supply most of the goods and services that are required for production. Since 1997 the current account balance has deteriorated, driven partly by rising domestic demand and higher oil prices (see Figure 7). The deficit has been financed by robust foreign direct investment (FDI) inflows (particularly since 2005), remittances and a surplus on the services account. The island has been relatively successful at attracting FDI, thanks to its political stability, low levels of corruption and relatively good-quality public infrastructure.

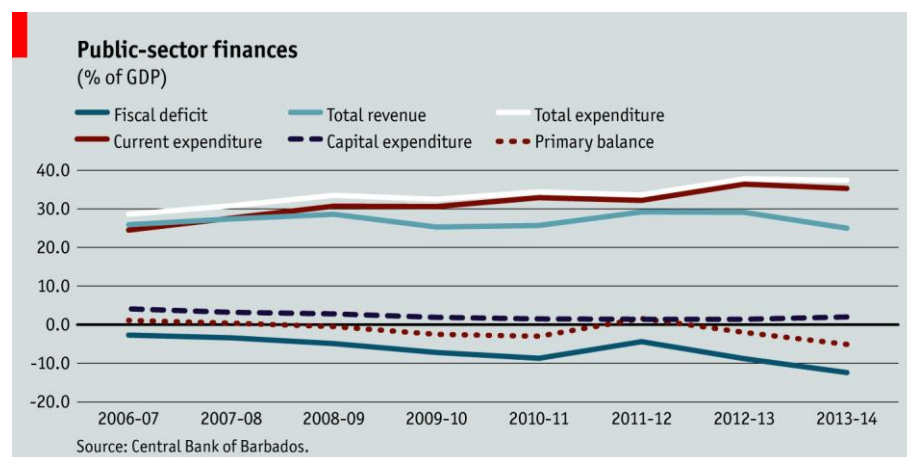
**Figure 7**



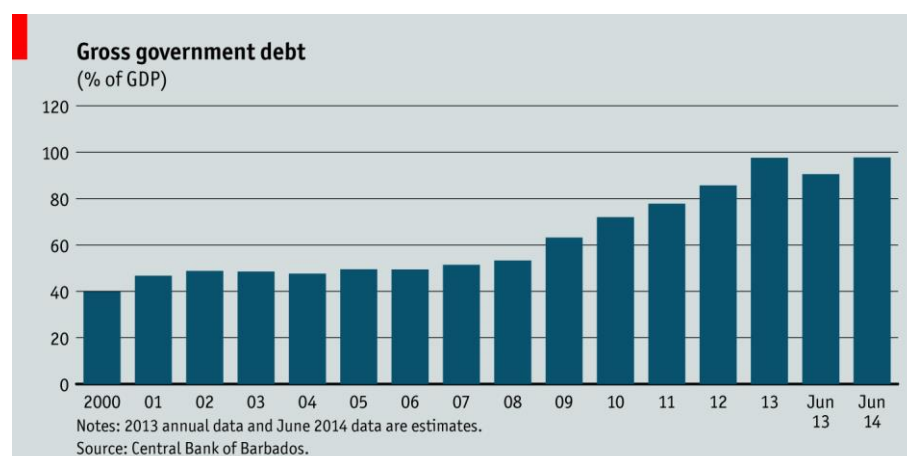
The slowdown in world economic growth—and particularly in the country's largest export partners, the UK and the US—has had a negative effect on macroeconomic fundamentals in Barbados over the past four years. In particular, the government's fiscal accounts have deteriorated fairly sharply, and there has been a consequent rapid increase in public-sector debt (see Figure 8). National debt has ballooned, rising from BBD\$4.9bn (equivalent to 49.5% of GDP) in 2005 to BBD\$8.3bn in 2013 (nearly 98% of GDP) (see Figure 9). This

fiscal deterioration has been largely the product of a significant fall-off in revenue and unchecked expansion in outlays on transfers and subsidies. The main policy challenge in the short to medium term will therefore be the implementation of a credible fiscal strategy that does not impede prospects for economic recovery.

**Figure 8**



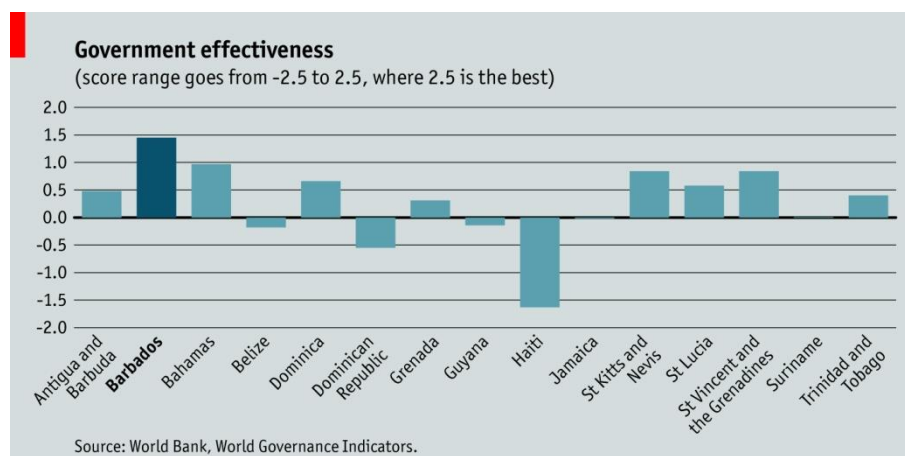
**Figure 9**



### **Institutional effectiveness**

Barbados has high-quality institutions built on a steadfast commitment to democracy and effective government policies. The island nation has a history of effective leadership, demonstrated by the fact that in 2012 it boasted one of the highest rankings for government effectiveness of any small-island developing state in the World Bank's Worldwide Governance Indicators (see Figure 10). Henry and Miller (2009) also note that, given the similarity of the institutions of most Caribbean islands in the immediate post-independence period,<sup>5</sup> it is not institutional differences that explain Barbados's success, but rather the quality of the policies pursued by the country's leaders. These policies have contributed to the creation of a largely well-regulated, transparent and supportive environment for doing business.

<sup>5</sup> Barbados attained full internal self-government in 1961 and independence in 1966.

**Figure 10**

The island benefits from a relatively stable political environment, with elections constitutionally due every five years. There are two main political parties on the island: the Barbados Labour Party (BLP) and the Democratic Labour Party (DLP). Although there are some minor ideological differences between them, both parties are largely committed to democracy, the rule of law and the operation of free markets. The DLP is the current ruling party, having secured 16 seats out of 30 in the House of Assembly at the February 2013 general election, thereby holding on to power. The DLP came to power in the January 2008 election; before that poll, the BLP had enjoyed three consecutive terms in office, beginning in 1994.

The government of Barbados has set up a large number of institutions and funds to support private-sector development. These include the Enterprise Growth Fund, the Agricultural Development Fund, the Export Promotion and Marketing Fund, the Innovation Fund, the Industrial Investment and Employment Fund, the Small Hotel Fund, the Energy Smart Fund, the Tourism Loan Fund and the Special Technical Assistance Programme. These funds support both loans and grants to target sectors such as manufacturing, small businesses and renewable energy.

## Components of the productive sector

### Overview of the sector

This section addresses the current state of the private sector in Barbados and its primary components. A later section will discuss potential emerging growth sectors.

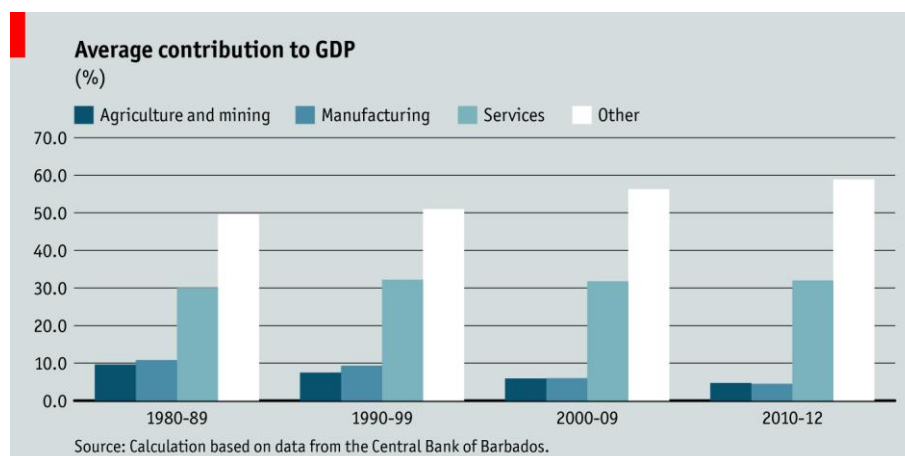
**Figure 11**

Figure 11 shows the decomposition of sector contributions to GDP within the last few decades. The wholesale and retail sector has dominated as the primary contributor to GDP for the last 30 years, followed by the business and financial sector, which has been one of the largest contributors to GDP in recent years. Tourism rounds out the top three income generators in the private sector in Barbados.

The private sector has traditionally been the main source of jobs in Barbados. At the end of 2013 approximately 93% of the labour force, or 126,200 people, worked in the private sector, according to the Barbados Statistical Service (BSS). This figure is admittedly an overestimate, given that the BSS does not disaggregate the information for state-owned enterprises. But this does not alter the fact that the private sector is the main source of employment for most residents.

Most firms operating in the domestic market can be classified as small—that is, having fewer than 20 employees. Unfortunately, statistics on the size of the small-business sector are not collected, but the sector's size can be inferred from a number of different sources. The Barbados Small Business Association, for example, reports that in 2011 it had 503 financial members and 523 non-financial members, significantly more than any other business association on the island.<sup>6</sup> Barbados Fund Access<sup>7</sup>, a local microfinance agency, reports that since 1998 it has approved more than US\$31.7m in loans to 964 small businesses, creating more than 1,209 businesses in the process. Meanwhile, the Youth Entrepreneurship Scheme's Business Directory for 2010-12 lists more than 600 enterprises.

**Services** Since the 1950s, Barbados's economy has been largely service-driven. In the past 25 years this dependence on services has deepened: in 1987 services value

<sup>6</sup> Financial members are members that have paid their subscriptions for the current financial year, while non-financial members are past members that have not paid their subscriptions in the current financial year, for whatever reason.

<sup>7</sup> Barbados Fund Access offers small loans (from US\$350 to US\$50,000) to clients at an interest rate of 6% on a reducing balance.

added accounted for 79% of GDP, while by 2000 the figure had risen to 84% and by 2012 83% of GDP was attributable to services. In the last four years, the services industry consists largely of hotels and restaurants (12%), finance and business services (20%) and government services (16%).

Wholesale and retail trade is the largest employer in Barbados, as well as being the biggest employer of women. Tourism (comprising accommodation and related services), the main driver of economic activity on the island, is the second-largest employer, with over 13% of the employed labour force holding jobs in the industry (see Figure 12). The largest employer of men in the country is the construction, mining, and quarrying sector, which is the third-largest employer overall in Barbados. These three sectors together employed 43% of the labour force in 2013<sup>8</sup>, and are highly interconnected. Tourism has been the main driver of construction activity in recent years, while wholesale and retail trade is highly dependent on tourism and construction for its growth. The shares of employment by each industry remained steady between 2010 and 2013.

**Figure 12**

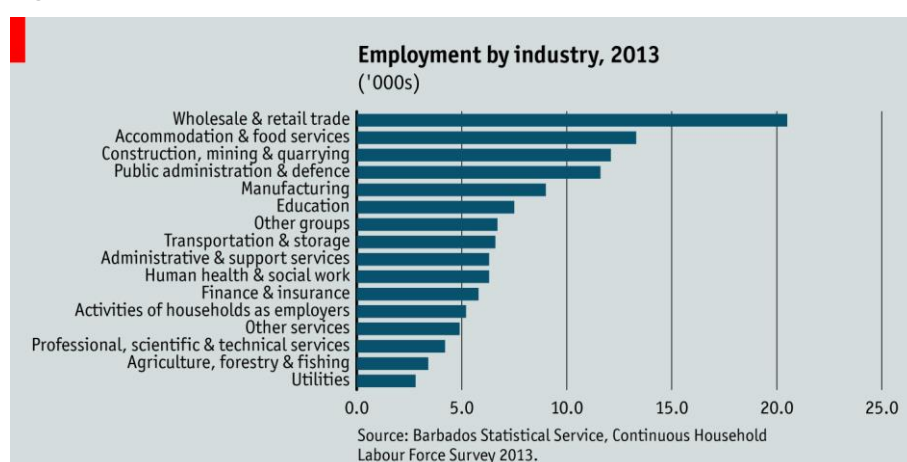
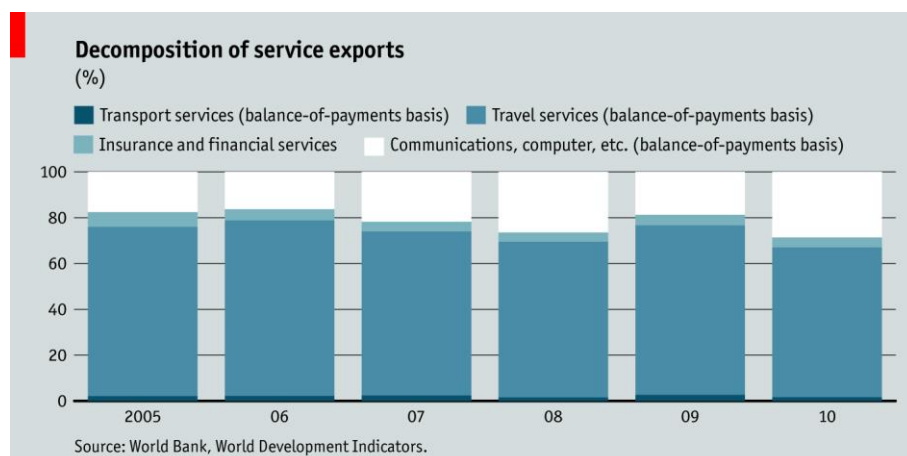


Figure 13 plots the composition of the various components of the services industry for the period from 2005 to 2010. On average, tourism services accounted for roughly three-quarters of service exports, with communications services accounting for most of the remainder. Communications services in particular have grown fairly rapidly in recent years, rising from just under 13% of total services exports in 1990 to almost 30% by 2010.<sup>9</sup> The financial services industry also reported significant growth over the period, but the 2008-09 global financial crisis had an adverse impact on the industry. Between 1990 and 2010 the industry accounted for almost 10% of services exports from Barbados, but by 2007 the figure had fallen to just 4.3%, and it remained below 5% for the remainder of the period.

<sup>8</sup> Continuous Labor Force Sample Survey, 2013, undertaken by the Barbados Statistical Service Department.

<sup>9</sup> Communications, computer, information, and other services cover international telecommunications; computer data; news-related service transactions between residents and non-residents; construction services; royalties and licence fees; miscellaneous business, professional, and technical services; personal, cultural, and recreational services; manufacturing services on physical inputs owned by others; and maintenance and repair services and government services not included elsewhere.

**Figure 13**

### Industry and agriculture

The rise in the contribution of services also reflects a decline in the fortunes of agriculture and manufacturing (see Figure 11). At its peak in the 1980s, a fairly vibrant light-goods manufacturing industry flourished on the island. The industry was highly concentrated, and depended to a large extent on high walls of protection to offset diseconomies of scale (Lewis-Bynoe, Griffith and Moore, 2002). As Barbados liberalised its trading regime during the 1990s, many firms that were unable to compete on price exited the industry.

Industrial production in Barbados today consists largely of petroleum products, food, and beverages, printing and fabricated metal products. In most instances, these industries largely supply the domestic market, but some firms also sell into the export market. Table 1 provides an assessment of the largest industries, and Table 2 shows the fastest-growing export industries. The largest industries are those with the highest revealed comparative advantage (RCA) values and US dollar value, while the fastest-growing industries are identified based on those whose RCA rose from below 0.1 to above 1 between 1987 and 2009. (The existence of a comparative advantage for a country in a particular commodity or industry is "revealed" when its index score for that commodity or industry exceeds 1.) The two largest industries between 1987 and 2009 were medicaments and public transport vehicles, while the fastest-growing industries included metal casks for packing goods and orthopaedic appliances.

**Table 1: Largest industries, 1987-2009**

Industries	Value (US\$ m)	RCA (index score)
Medicaments	41.3	4.3
Public transport vehicles	39.5	102.2
Alcoholic beverages	35.7	57.8
Raw sugar	18.1	56.6
Cement	16.9	56.6
Precious jewellery	14.4	8.0

Source: Competitiveness Forum

**Table 2: Fastest-growing industries (1987-2009)**

<b>Industries</b>	<b>Value (US\$ m)</b>	<b>RCA (index score)</b>
Metal casks for packing goods	6.5	16.9
Orthopaedic appliances	6.2	5.3
Footwear	3.9	1.6
Non-electrical navigating devices	3.2	7.6
Insecticides	2.7	17.8
Unwrought aluminium	2.3	2.3
Aluminium structures	2.1	8.4

Source: Competitiveness Forum

Agriculture in Barbados is still largely dominated by the sugarcane industry. Most of the sugar produced is exported to the EU under the African, Caribbean and Pacific-EU Sugar Protocol. Like manufacturing, the sugarcane industry has been making losses since the EU reduced its umbrella of protection and is largely dependent on government subsidies for its survival. As a result, during the past three decades the area of land under sugarcane cultivation has declined significantly from 20,100 ha in 1970 to just 5,600 ha in 2010.

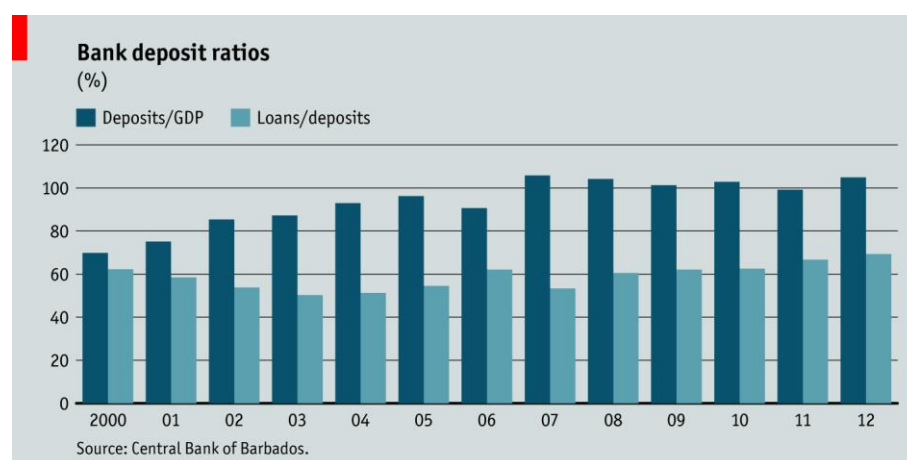
## II. Key challenges for private sector development

This section assesses a number of issues that are critical to the development of the private sector in Barbados. It discusses challenges that the private sector faces, drawing on consultations with stakeholders and several global databases.

### Access to finance

Since 1981 the interest-rate spread in Barbados has generally widened, possibly indicating a deterioration in credit market efficiency. In 2009-11 the spread increased sharply as banks reacted to the initial deterioration in economic conditions, but started to narrow thereafter as the slump became more protracted. Due to the existence of exchange controls on capital account transactions, domestic savings play a key role in the availability of credit. At the end of 2009 bank deposits stood at over 90% of GDP and rose to 105% in 2012, one of the highest ratios among the group of comparator countries (see Figure 14). However, bank credit as a proportion of bank deposits stood at just under 50% in 2009 and 70% in 2013, among the lowest ratios in the Caribbean (see Figure 14). This suggests that businesses in Barbados—and particularly small businesses, which lack the access to international credit markets that some larger firms enjoy—find it difficult to access credit, despite the availability of funds in the financial system. Business finance (or the lack thereof) is both a supply and a demand problem. On the supply side, there is the perceived risk associated with providing loans to small businesses. On the demand side, entrepreneurs and small businesses may not be aware of the lending facilities that are available.

**Figure 14**



Both the private and public sectors have attempted to address these constraints on finance. Commercial banks are the main providers of financing to both small and large companies, offering various types of credit facilities, such as traditional loans, overdrafts, leases and the like. Most commercial banks offer dedicated credit products aimed at small businesses. In addition to commercial banks, there are also a number of specialist institutions and funds that offer financing to specific target groups. Credit unions are highly active in the small-business sector, and especially the informal sector. Although the regulations governing credit unions prohibit lending to companies, many small businesses



are not incorporated, and credit unions structure such lending as personal loans. Credit unions are thus an important source of lending to small businesses.

The government has established a number of funds aimed at providing capital, in the form of loans or equity financing, to specific sectors. The Central Bank of Barbados also provides loan guarantees for businesses and a lending window for tourism as well as for enterprises in the agricultural sector. But in spite of the availability of funds from these windows, more than 30% of firms surveyed indicated that access to finance was a "major" or "very major" obstacle to doing business.<sup>10</sup> Some possible explanations for this identified during interviews were a lack of knowledge regarding available sources of finance and the bureaucratic hurdles that must be overcome in order to access funds.

### **Business environment**

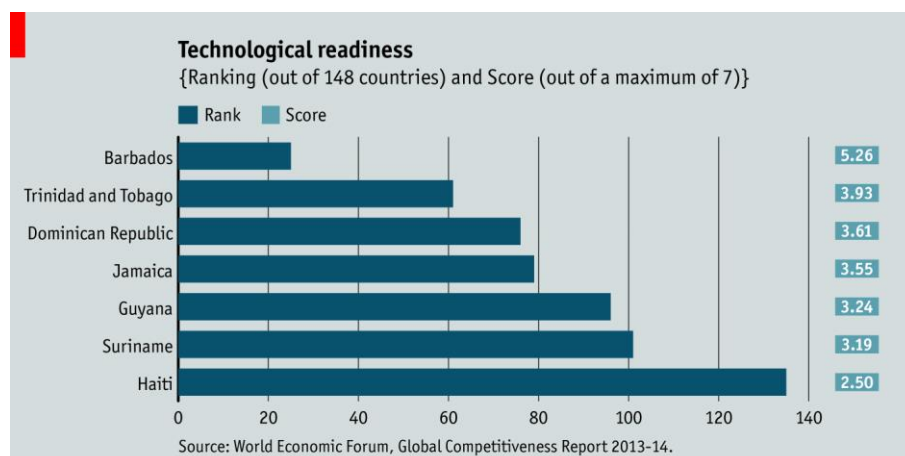
One of the main determinants of private-sector development is the existence of an enabling environment. Areas of the business environment that are of concern in Barbados include investor protection and the regulatory burden. In the area of investor protection (as revealed by the 2010 Enterprise Surveys), firms are not required to disclose transactions to the public or shareholders, while minority shareholders (those holding less than 10% of shares) are not entitled to inspect transaction documents, and shareholders cannot hold members of the approving body liable for damage caused by buyer-seller transactions. In terms of regulations, a key concern relates to construction-related permits. The number of procedures required to obtain such a permit is below the average for Latin America and the Caribbean; however, the length of time taken to obtain approval to develop land from the Town and Country Development Planning Department can significantly delay the process. Indeed, the World Bank reports that in 2013 it took 270 days on average to receive permission from the office. Furthermore, efficiency in granting import licences and operating licences could be improved (World Bank, 2011). Private-sector entities therefore require a significantly longer time to access these permits and licences in Barbados than the averages for Latin America and the Caribbean and for the rest of the world. In addition, over 15% of all firms reported that tax administration was a major or very severe obstacle to doing business.<sup>11</sup>

### **Research and development (R&D) and innovation**

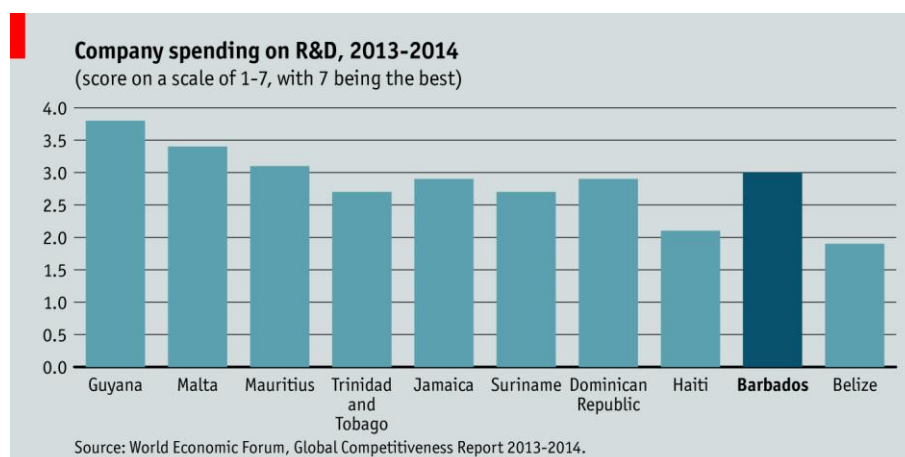
The Technology Readiness Index compiled by the World Economic Forum (WEF) is based on indicators of the availability of the latest technologies, firm-level technology absorption, foreign direct investment and technology transfer, Internet use, broadband Internet subscriptions and Internet bandwidth. Barbados was ranked second in terms of technological readiness within the benchmark group of countries in 2013-14, largely owing to high Internet penetration rates and availability of technologies. Relative to the benchmark group, the island had the largest proportion of firms with their own website. The only indicator in the index on which the island lagged behind its peers was that for the use of technology licensed from foreign companies. This may suggest that there is scope for greater collaboration with overseas firms.

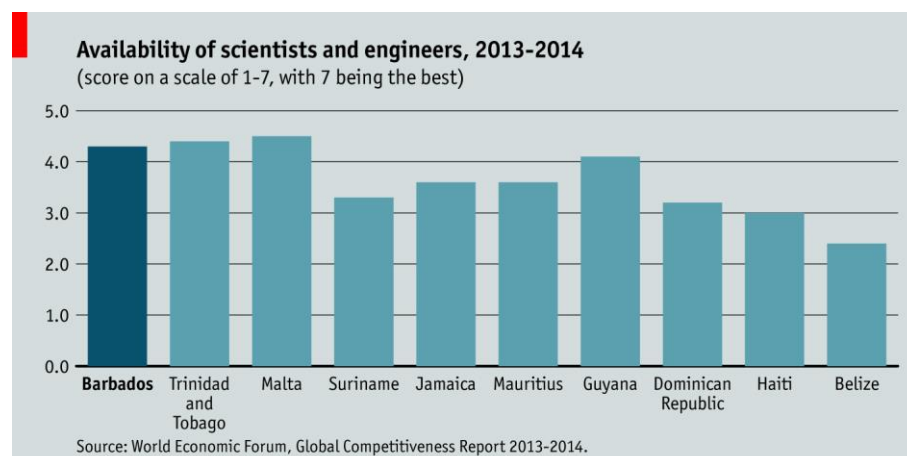
<sup>10</sup> 2013 firm-level survey funded by Compete Caribbean.

<sup>11</sup> Enterprise Surveys 2013.

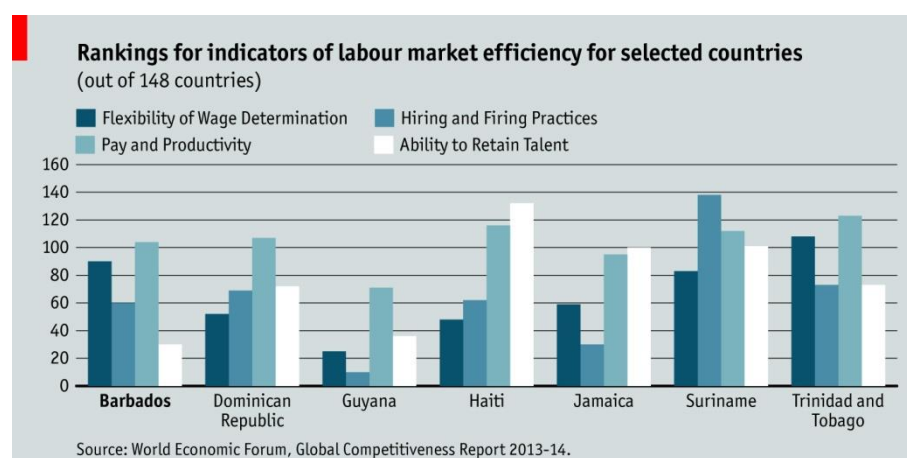
**Figure 15**

Companies in Barbados have access to technological platforms that can enhance the efficiency of their enterprises. However, corporate investment in innovation lags significantly behind investment in technology. Figure 16 demonstrates the level of companies' spending on R&D in Barbados relative to that in comparator countries. Barbados was ranked 78th out of 148 countries in this category in the WEF's 2013-2014 Global Competitiveness Report. The modest level of investment in innovation is not a result of limited availability of appropriately skilled personnel, as the island boasts the highest scores for availability of scientists and engineers among the benchmark group of countries. Given the importance of services in the domestic economy, this could suggest that R&D expenditure may not accurately capture the extent to which firms are innovating. However, the low level of R&D expenditure reflects the dependence of local firms on the domestic market, and is an area in which further policy support is required.

**Figure 16**

**Figure 17****Labour regulation**

Labour market regulations in Barbados are a mixture of legislation, common law doctrines, custom and policy. There is no general employment act and no minimum wage. However, legislation does exist to cover sugar workers (the Sugar Workers Act), hotel, restaurant and shop workers (the Shops Act) and community, social and personal-service workers (the Domestic Employees Act). These pieces of legislation specify periods of work and payments for overtime.

**Figure 18**

Barbados's social protocols, articulated by the Social Partnership (comprising government, the private sector and trade unions), are a key aspect of the country's labour-employer relations. The protocols commit the partners to improving productivity and increasing efficiency, thereby reducing waste and enhancing national performance so as to attract investment and create employment opportunities. The achievement of these objectives is based on the joint commitment of the parties to clearly defined initiatives, including the establishment of a framework for workers' security of employment and a reduction in the frequency of labour disputes.

The limited regulations that exist regarding the labour market tend to reduce its flexibility. Archibald, Lewis-Bynoe and Moore (2008) highlight rigidities in working hours, employment and redundancy as key constraints on labour

market flexibility. The Shops Act, for example, limits night work to 10 pm unless permission is obtained from the chief labour officer. Limitations also exist in relation to weekend work and overtime pay. Rigidity in employment is primarily related to the requirement specified in the Social Partnership Agreement for employers to notify and seek approval for group dismissals from the relevant union or ministry, and to the existence of priority rules for dismissals and re-employment formulated by collective agreement.

**Table 3: Rankings (out of 148 countries) for indicators of labour market efficiency for selected countries**

Country	Flexibility of wage determination	Hiring and firing practices	Pay and productivity	Brain drain
Barbados	101	70	71	26
Belize	49	23	85	124
Dominican Republic	45	78	111	68
Guyana	76	19	80	120
Haiti	33	60	93	142
Jamaica	84	69	114	95
Malta	96	96	64	40
Mauritius	107	82	74	77
Suriname	67	129	135	60
Trinidad and Tobago	120	83	119	59

Source: World Economic Forum, Global Competitiveness Report 2013-2014.

## Infrastructure, communications and energy

The private sector in Barbados has access to relatively reliable public and private infrastructure. Electrical outages on the island are fairly rare, with the typical power cut lasting less than one hour (see Table 4). As a result of the relatively consistent supply of electricity, private-sector ownership of generators in Barbados is low, at around 17% of companies, compared with an average of 38% in the benchmark group of states.

**Table 4: Infrastructure indicators for Barbados and comparator countries<sup>12</sup>**

Indicator	Barbados	Average for comparator countries
Number of electrical outages in a typical month	1.1	3.6
Duration of a typical electrical outage (hours)	0.6	1.7
Losses due to electrical outages (% of annual sales)	0.1	0.6
% of firms owning or sharing a generator	16.9	37.8
Proportion of electricity from a generator	1.9	3.4
Days to obtain an electricity connection	24.7	17.9
% of firms identifying electricity as a major constraint	47.3	39.4
Number of water insufficiencies in a typical month	0.1	0.7
Proportion of products lost to breakage or spoilage during shipping to domestic markets (%)	n/a	0.6
% of firms identifying transportation as a major constraint	18.3	23.5

Source: World Bank, Enterprise Surveys (2010).

Notwithstanding the relatively consistent supply of electricity available to the private sector, over 40% of firms indicated that electricity was a major or very severe obstacle to doing business.<sup>13</sup> There are two factors that could explain this somewhat contradictory result. First, unlike on some other Caribbean islands, in Barbados electricity prices are adjusted for fluctuations in the prices of energy inputs: a 10% increase in oil prices, for example, could have a more than proportional impact on the general level of prices in the island, given that most electricity generated in Barbados is obtained from imported fossil fuels (Carter, Craigwell and Moore, 2014). Second, the average length of time that it takes to obtain an electricity connection in Barbados, at 25 days, is seven days more than the average for the benchmark group of states.

The WEF's 2013-2014 Global Competitiveness Report ranked Barbados 24th out of 148 countries for quality of infrastructure. For many components of this subindex—such as the quality of airports and seaports, and the availability of fixed telephone lines—the island was ranked a world leader. The only aspect of infrastructure for which it was not placed in the top 30 was availability of airline seats.

## Gender in the private sector

Barbados has attempted to address many of the gender barriers that exist to doing business. Progress in relation to the gender gap can be assessed using the WEF's Global Gender Gap Report. The report provides an index that benchmarks the overall gender gap, as well as gender gaps in relation to

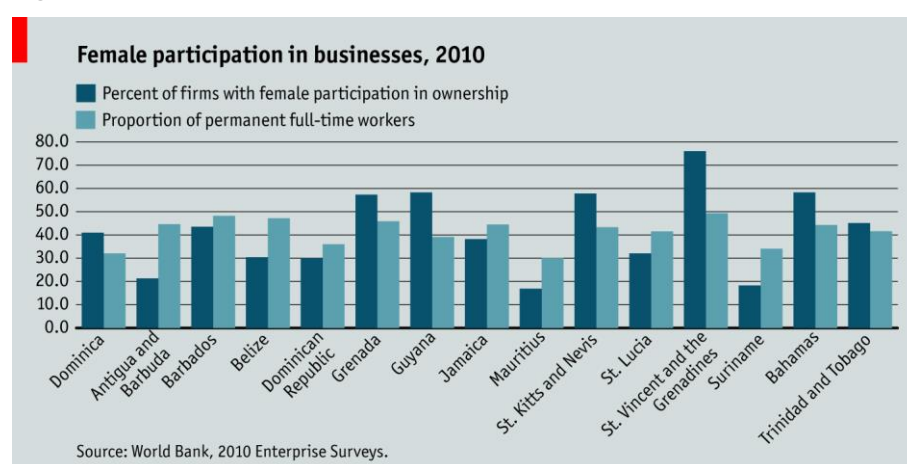
<sup>12</sup> The comparator countries consist of the 15 beneficiary countries of Compete Caribbean (Antigua and Barbuda, the Bahamas, Barbados, Belize, the Dominican Republic, Dominica, Grenada, Guyana, Haiti, Jamaica, St Lucia, St Kitts and Nevis, St Vincent and the Grenadines, Suriname, and Trinidad and Tobago), together with Palau, Mauritius, the Seychelles and Malta.

<sup>13</sup> World Bank, 2013 Enterprise Surveys.

economic, political, educational and health-based criteria. Barbados had one of the best overall rankings among the group of comparator countries, at 33rd out of 135 countries, with only Trinidad and Tobago and the Bahamas being placed ahead of it. The island's ranking reflects its relatively small gender disparities relative to the comparator countries in relation to economic participation (for which it is ranked eighth), educational attainment (first), and health and survival (first).

Figure 19 shows indicators of female participation (ownership and permanent full-time positions) in firms, while Figure 20 examines the number of non-production females and the number of firms with female top managers. Almost 44% of firms surveyed indicated that they had a woman participating in ownership, putting Barbados roughly in the middle of the group of comparator countries, and a similar story emerges with regard to the proportion of permanent female full-time workers. Barbados also scored highly in terms of the proportion of female top managers in its firms.

**Figure 19**



**Figure 20**



Barbados had a relatively equal distribution of men and women in professional and technical professions, as well managerial positions. Female and male rates of unemployment were almost identical in 2013; however, the workforce

participation rate for females (62%) remained below that for males (72%)<sup>14</sup>. The main bottleneck in relation to the economic participation subindex in the WEF's Global Gender Gap Report is the wage gap between males and females. The report estimates that in 2011 the average wage for females was US\$15,119, while that for males was US\$23,507. The earnings gap between genders is widest among low-income workers (Bellony, Hoyos and Nopo, 2010), with most of the difference being due to disparities in occupational experience.

**Environment** The economy and quality of life in Barbados are largely dependent on the capacity of its terrestrial and marine ecosystems to continue to provide ecosystem services. Ecosystem services take many forms: provisioning from natural systems (seafood, wood and plants from gully ecosystems) and altered agro-ecosystems; seashore protection services from reefs and coastal vegetation; sand generation by reefs; non-extractive use services that support income-generating activities such as snorkelling, scuba diving, hiking and sightseeing; and, finally, the creation of opportunities for recreation. Most of the island's resources are under stress from economic activities: arable land is largely utilised in sugar production, coral reefs and beaches are used to support the tourism industry, and there is quarrying and extraction of limestone, sand, shale, clay and fossil fuels (natural gas and oil). Hydrocarbon deposits exist in the south-eastern and central parts of the island. All these resources could be placed under even greater stress in the future as the economy remains largely dependent on tourism and the associated construction work in the medium term.

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<sup>14</sup> Continuous Labor Force Sample Survey, 2013, undertaken by the Barbados Statistical Service Department.

### III. Emerging sectors

Based on the analysis above, and on consultations with stakeholders, the large and fast-growing sectors in Barbados are considered to be tourism, financial services, the food and beverages industry, and green energy.

#### **International business and financial services**

The services sector of the economy also features a vibrant international business and financial services segment. According to the Barbados International Business Association, in fiscal year 2012/13 (April-March) the industry contributed an estimated US\$450m to the local economy and contributed more than 60% of the total intake of corporate taxes to government coffers and provided high-paying jobs. There were 4,115 entities registered in the island at the end of 2013, representing an increase of almost 900 since 2007. In the same period, there was slight increase in job creation, with employment rising by 4,500 by the end of 2013. Most of these new jobs were in international firms, with the majority of enterprises hailing from Canada, Venezuela, the US, Netherlands Antilles and Panama. To stimulate growth in the financial services industry further, new products are being introduced in the areas of international trust and corporate-service providers, international trusts, private trust companies and foundations, and family offices. Barbados has double-taxation agreements with many economies, including the Czech Republic, Belgium, Panama and Portugal.

In addition, the Central Bank of Barbados (CBB) has reinforced its commitment to the development of the country's international business and financial services sector. The CBB reiterated that the sector is the main contributor to corporate tax in Barbados and a robust contributor of foreign exchange. The government has aligned itself strategically to support the sector through continual upgrades of the regulatory framework; the extension of the country's double taxation network; and continued utilization of its robust array of tax treaty arrangements.

#### **Alcoholic beverages**

Barbados's rum exports are estimated at US\$25m in 2000. By 2007 the figure had risen to almost US\$34m, an increase of almost 36%. This fairly rapid pace of growth then continued, and by 2013 rum exports had reached US\$43m. However, most rum exported is still sold in bulk, with little or no branding. The island's strategy for the industry going forward largely hinges on developing the Rums of Barbados brand.

#### **Green energy**

Barbados has made some attempts to support the growth and development of the green economy. With few possibilities of expanding its own limited production of fossil fuels, the most effective alternative in terms of achieving balance between energy demand and supply is to (1) contain energy demand growth by increasing energy efficiency and (2) expand production from alternative-energy sources and natural gas. As a result, many green-energy industries have flourished. These industries have the potential to be harnessed to develop a vibrant green export base (Moore, 2012). As a result of incentives for green industries, new companies have been emerging in the fields of photovoltaics, solar water-heating and other areas of renewable energy.



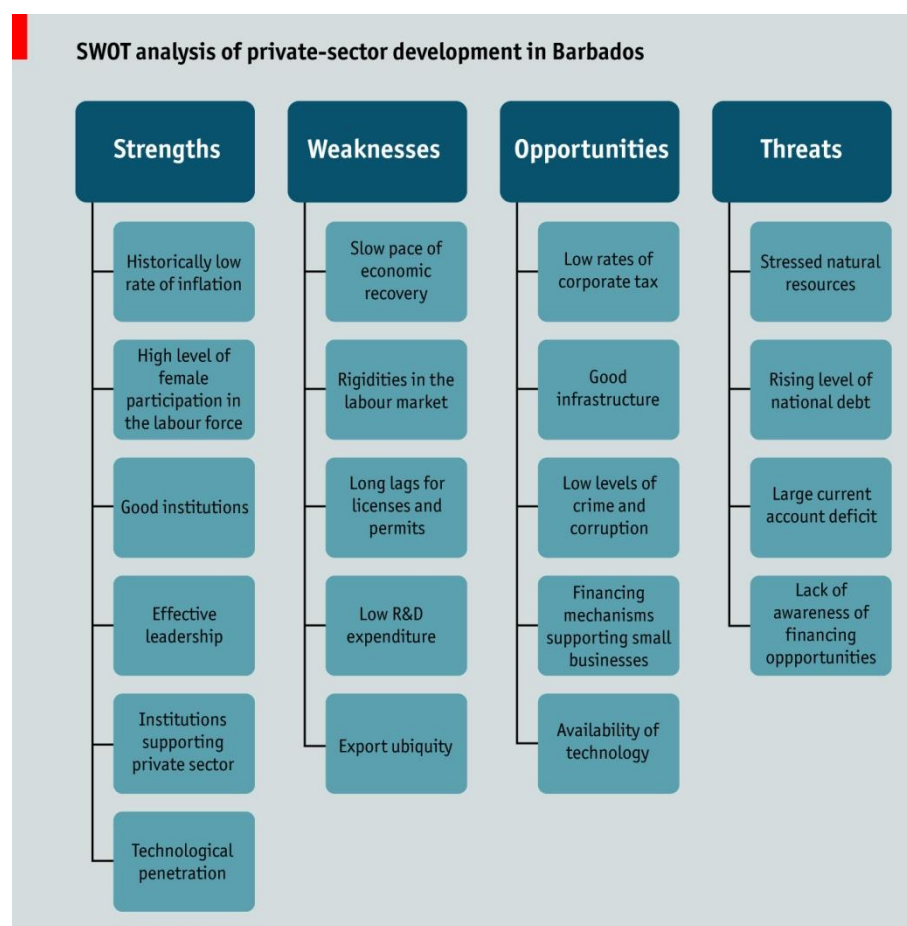
Unfortunately, very little information is available on this new industry, and few steps have been taken so far to measure and track the progress of the island's renewable-energy initiatives. However, the government's Division of Energy has recently implemented a National Energy Information System that will track various aspects of the industry. In addition, an Energy Smart Fund will provide technical assistance as well as granting funds to businesses.

The government's 2010 Sustainable Energy Framework for Barbados suggests that renewable energy could produce 30% of the island's total energy needs by 2029. Assuming a world market price for oil of US\$100/barrel, the framework identifies six renewable-energy technologies that are already economically and commercially viable, including: solar water heaters for homes, seawater air conditioning, biomass cogeneration, wind farm projects, hybrid/photovoltaic thermal systems, and the use of municipal solid waste to generate energy. In addition, given high electricity prices in Barbados and the fact that almost 50% of firms identify electricity as a major constraint on doing business, it is likely that the renewable-energy industry will continue to expand fairly rapidly in the short to medium term.

## IV. Priority areas and action plan

Desk research produced the following list of challenges to private-sector development in Barbados: public-sector productivity and the slow speed of business interactions with the public sector, labour market rigidity, the low level of research and development (R&D), finance for start-ups, limited market size, lack of skilled labour, an implementation deficit, and problems with transparency. Interviews were subsequently conducted with various government departments, non-governmental organizations, firms and representative associations in the public service, the private sector and academia to identify and prioritize constraints on private-sector development. Figure 21 provides a SWOT (strengths, weaknesses, opportunities and threats) analysis of private-sector development in Barbados.

**Figure 21**



From the list identified above, three main issues were identified as significant hurdles to private-sector development: (1) public sector productivity, (2) R&D activity by the private sector and (3) finance for start-ups. Other major constraints identified were high tax rates and labour market rigidity.

### **Issue 1: Public-sector productivity**

Business people and their representatives noted that officials at government departments tended to display poor customer-service skills, resulting in long

delays in conducting business. A 2012 report from the National Initiative for Service Excellence (NISE) provides some support for this view. The report calculates a NISE Customer Satisfaction Index based on the drivers of satisfaction and factors that affect consumer behaviour. Based on a sample of public-sector entities, NISE reports that, in most instances, scores were low in relation to customer expectations, customer satisfaction, waiting times, ease of obtaining information, and efficiency of administrative processes.

Although Barbados has generally high-quality institutions, there is room for improvement in bureaucratic efficiency. Public-sector officials and labour representatives alike acknowledged the slow speed of conducting transactions with the public sector and identified a number of potential bottlenecks that were holding back progress in this area. One issue highlighted was operational procedures. These tend to add unnecessary layers to doing business. The issue of multiple windows at the country's port was cited as an example of operational procedures adding to the cost and time taken to conduct business. Similarly, many of the delays incurred in clearing goods through customs could be addressed by putting a risk-management framework in place in order to identify low- and high-risk shipments. Public-sector officials and labour representatives also noted that one of the biggest hurdles to institutional change in the public sector relates to labour. Accountability issues may require the government to consider changes to public officials' incentive structures and to overall employment and promotion policies.

### **Recommendations**

There are a number of country-level studies that provide potential solutions to the problem of public-sector inefficiency in Barbados. The UN noted that one approach to addressing the poor quality of service provided by counter staff is to have one-stop counters located on the ground floor of office buildings, the use of electronic queuing systems, and one-stop bill-payment centres. To address operational inefficiencies, the creation of a manual of office procedures and corresponding desk files would clarify the functions of organisations, enhance continuity, and identify bottlenecks or inefficiencies. It might also help to address the traditional public-sector organizational culture of bureaucracy and hierarchy (Parker and Bradley, 2000). In addition, given the penetration of technology to all levels of the public sector, the government should aim to institute a paper-free bureaucracy. Brown et al. (2000), and also Wallis and Dollery (2001), put forward the idea of commercialisation (privatization, corporatization and large-scale contracting out) as a possible means of enhancing service delivery. The UN has emphasized the importance of measuring efficiency and effectiveness, as well as of developing public accountability. A commission should be established to deal specifically with the issue of the accountability of public-sector officials and the effectiveness of agencies.

### **Issue 2: R&D activity by the private sector**

Another key issue identified in stakeholder discussions was that of R&D development by the private sector. There was general agreement among stakeholders that this was a critical area of weakness that needed to be addressed. Factors mentioned as contributing to the low level of R&D

investment included lack of finance, limited competition, a protected domestic market and the conservative business culture in Barbados.

### **Recommendations**

One potential solution to this problem might be the use of R&D tax credits (Harris, Li and Trainor, 2009). However, the income tax code already provides tax credits for process or design innovations, including organisational innovations, suggesting that tax incentives are not the problem. Instead, most stakeholders pointed to the lack of finance to take advantage of these initiatives, and in some instances a lack of long-term strategic planning by businesses.

### **Issue 3: Finance for start-ups**

In general, there was a perception among interviewees that traditional financial institutions do not provide financing for start-ups or R&D investments unless collateral is made available (for example in the form of vehicles, land or houses). There are many government-owned financing enterprises, including FundAccess and the Enterprise Growth Fund, that have arisen to fill the gap. However, owing to a lack of capital, these institutions often focus on small-scale finance.

### **Recommendations**

Many interviewees suggested that what was needed was a well-capitalised development bank. With an appropriate governance structure, such an institution should be able to fill the funding gaps for farmers, manufacturers and other participants in the export sector.

### **Issue 4: Taxation**

Private-sector representatives also mentioned a number of issues in relation to taxation. Regarding tariffs, many goods and services still attract high rates of duty even though the industries that the tariffs exist to protect have disappeared. Tariffs on agricultural products are particularly high (65%), as these high rates are used to offer protection to local producers (Griffith, Lewis-Bynoe and Moore, 2000). The level of protection offered to the manufacturing industry is also relatively high, with the average tariff on prepared foods and beverages estimated at 79%. Business people also highlighted the high levels of taxes that their staff had to pay: in many cases, such individuals paid more tax as a proportion of income than higher-income earners. This situation, it was argued, created a disincentive to work. High levels of taxes at all income levels have encouraged a culture of tax avoidance and evasion.

### **Recommendations**

To address this issue, the government has applied for financing from the Caribbean Development Bank for a consultancy that would advise on the implementation, organisational design and related services for a central revenue authority. This institution will seek to consolidate major revenue-collection agencies such as the Land Tax Department, the Inland Revenue Department, the Customs and Excise Department and the Licensing Department. It is envisioned that it will enhance the efficiency of revenue collection and reduce delays in the filing of tax returns.

Tax policy can have a significant impact on private-sector development. High compliance costs can cause firms to operate informally, encourage tax evasion,

reduce investment, lower sales and, ultimately, slow the rate of GDP growth (Bruhn, 2011; Fung, Ho and Zhu, 1999). The value-added tax (VAT) regulations, for example, grant flexibility in relation to VAT reporting. For small businesses, VAT reporting frequency could be reduced to quarterly, half-yearly or annually. This would reduce accounting costs and time spent on filing tax returns. There is also a need for more rapid refunds, as delays in payment of refunds can have a significant impact on firms' liquidity. There is an intimate link between firms' liquidity, growth and development. Moore et al. (2009) estimate that a 1% reduction in companies' liquidity in Barbados could reduce their growth by 0.3-0.6% in the long run.

There is therefore a need to review the level of taxation currently in place in the island with a view to reducing the overall tax burden on businesses and individuals.

### **Issue 5: Labour market rigidity**

At the operational level, labour market flexibility is commonly associated with the number and strength of labour market regulations or institutions that exist. There is considerable variation between countries in regulations covering unfair dismissal, restrictions on lay-offs for economic reasons, compulsory severance payments, minimum notice periods and working hours. Historically, Barbados has tended to rely primarily on the collective-bargaining process. However, faced with the uncertainties of collective-bargaining outcomes and the power of the trade unions, employers have been pressing for a clear regulatory environment. In 2012 parliament passed the Employment Rights Act, which expands the regulatory framework for employment relations. Its extensive provisions include:

- The right to file an unfair-dismissal claim after having been employed for a year or more
- The provision of the terms and conditions of employment
- Employers must provide employees with advance notice of termination of employment, with the period capped at ten weeks for staff employed for at least 15 years
- Employers must submit National Insurance Scheme deduction statements to their employees for each pay period
- The establishment of a dispute resolution process and an employment rights tribunal
- Employers will continue to have vicarious liability for the wrongful acts of their employees, but not those of independent contractors.

### **Recommendations**

The main worry voiced by representatives of the private sector is that the new legislation has added an additional layer of rigidity to the labour market. There are concerns about the levels of documentation and record-keeping required and that the legislation could add to uncertainty in relation to hiring and firing employees. Policymakers will therefore need to re-examine the reporting

burden of the legislation as a means of reducing the cost of doing business in the island.

**Long-term action plan**

Barbados already has the institutional structure in place to address the key constraints to private-sector development mentioned above, in the form of the Social Partnership. This association of government, private-sector representatives and workers' representatives has as one of its major objectives "the national commitment to increased competitiveness through improved productivity and efficiency in the workplace". In this regard, the Social Partnership provides the ideal forum for the discussion of the main findings emerging from the PSAR. This body should be tasked with prioritizing the main issues that affect private-sector development from the report's findings and agreeing on a national agenda to address them. A timetable should be set for the agreement of critical problems and the identification and implementation of solutions, with the aim being to complete the process as quickly as possible.

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