



The Commonwealth

Trade Express

Strategies for Success

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Revitalising the Services Sector in Barbados

Introduction

In 2014, in response to a request from the Government of Barbados, the Commonwealth Secretariat's Trade Competitiveness Section (TCS) submitted the National Services Sector Development Plan (NSSDP) to the country's Ministry of Finance and Economic Affairs. The TCS worked with the Barbados Coalition of Services Industries (BCSI) to develop the NSSDP, which aims to make Barbados a sustainable services based economy. It sets priority actions to be undertaken by various government and private sector bodies over a 5-year period. Limited knowledge of services as a 'business' and constraints arising from the size of typical services firms have diminished the appreciation of the role of services in economic development in Barbados. The NSSDP sets out a public-private services sector strategy to drive the changes that are required to transform the services sector in Barbados.

Prevailing situation

Like many countries around the world, Barbados faced a contraction (3.7%) in real GDP in 2009. The economy grew by 0.2 per cent and 0.5 per cent in 2010 and 2011 respectively but growth prospects remained weak three years on. Barbados is a services-oriented economy with the services sector accounting for about 84 per cent of value added GDP in 2014. Employment in the services sector has been estimated at around 74 per cent of all employed persons. Approximately 21 per cent of services jobs are in wholesale/retail, 19 per cent in finance and business and 18 per cent in personal services provision (including education and health).

Of total services exports (US\$1.58 billion in 2011) tourism receipts amounted to US\$706 million making it the largest export at around one third (34%) of total exports and just under half (47%) of all services exports. Other business services exports were 24 per cent of services exports and non-tourism travel stood at 23 per cent. Finance and insurance represented a further 4.4 per cent of services exports, transport and communications 3 per cent and computer services 1 per cent.

Although computer software and hardware services represented a small share of services exports they exceeded traditional sugar cane exports (less than US\$10m), reflecting a structural change in the economy. Nonetheless services exports had been performing poorly, declining by an average of 1.4 per cent per annum over the five years to 2012. By comparison global services exports during the same period grew by 5.2 per cent per annum, with developing economies growing by 9.2 per cent per annum and developed countries by 3.5 per cent.

Although Barbados ranks 27 and is the highest ranked Caribbean country in the Tourism Competitiveness Index of World Economic Forum



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'Structures are being put in place to implement a development plan to create a conducive environment to valorise and professionalise; retool the labour force, provide and upgrade quality; improve management and efficiency'

(WEF), stakeholders have begun to question the country's market position as it is experiencing a steady fall in its international tourism receipts as a percentage of total exports. It is therefore imperative to explore new growth paths in order to revitalise the economy, improve its competitiveness and create jobs.

In its work with the Barbados Coalition of Services Industries, the Trade Competitive Section has formulated the NSSDP as a pathway to realise these objectives. The intervention includes discrete elements to assess the strengths, weaknesses, opportunities and threats to the services sector as a whole, identifying potential exportable services and designing a comprehensive implementation plan.

Barbados has a strong business, institutional and legal environment, well-developed infrastructure, a stable socio-political environment, and well-educated populace. Barbados faces the external challenges common to small-island developing states, including scale, vulnerability and high trade costs. Government's vision for Barbados is to make it a sustainable services-based economy. However, the realisation of this vision has been hampered by several challenges.

Challenges to the Barbados services sector

Three major challenges can be identified with respect to making Barbados a sustainable services based economy:

1. **Limited statistics on services sector.** As in many other small states there exists limited knowledge and appreciation of the services sector (outside mainstream tourism and financial services) and its contribution to economic development. One major reason for this is the lack of adequate statistical data on services; the few that are available are not sufficiently disaggregated to facilitate policy-making and strategic planning. There is no

attempt by the statistical authorities to collect services statistics during the regular Economic Survey. Alternative sources of data such as the Corporate Affairs and Intellectual Property Office (CAIPO) do not classify firms according to sector and in any case only require financial reports from companies with a turnover greater than B\$3 million (US\$1.5m) to file accounts. Similarly the VAT and revenue services do not classify firms. Only businesses with an annual turnover of B\$80,000 (US\$40,000) are required to register for VAT. The threshold for registration of income tax is B\$30,000 (US\$15,000). Because of this, the services sector (both domestic and export) is not accorded the priority it deserves when it comes to policy-making, budgeting and institutional support. This is partly due to the lack of identified services 'products' within aggregated groups that are being exported.

2. **Small scale sectors and firms.** There appears to be a wide variety of services activities in Barbados but many of these activities and associated exports are generated by just a handful of firms. Services export by one firm does not constitute an industry, and does not necessarily mean that it can be replicated. Therefore, there are many 'single' service sectors and very few broader services industries. Those sectors that do constitute an 'industry' were largely started in the domestic market, even if they export as well. These include education, contractors, creative industries and professionals (architects, engineers, planners and surveyors). Even in areas where there is an established industry, the sectors are generally characterised by a large number of very small firms. There appears to be little incentive to grow and this has led to predominance of small and micro firms. In one sector 70 per cent of firms have only 1 or 2 employees, with many being sole traders. One factor that has contributed to this characteristic is a tendency by firms to protect

and maintain their own domestic markets. This approach limits the scope for export development as firms lack capacity. It also limits the quality and competitiveness of locally available services. Another factor is the tax threshold of B\$30,000 (which is greater than the average wage in Barbados). Sole traders earning below this do not have to register, pay tax or undertake any bureaucratic procedures. Many services providers prefer to limit earnings and fall under the government 'radar'.

3. Limited understanding of services 'business'.

The approach of services providers is insular, narrowly focussed on their 'profession' rather than 'the business itself'. Most services providers seem to be highly qualified professionals many of whom are registered and accredited to international organisations. However they do not necessarily consider themselves as business people. This applies equally to artists as to engineers: business acumen and a business approach – planning, marketing, developing growth targets – is almost ignored. This means there is a swathe of service providers proudly delivering purportedly high quality services but barely making a living. In addition, given the foundations in the domestic market some service providers do not fully understand the 'service' they provide.

In Barbados, the market dictates that the supplier 'does all' for the customer, and so the services component is not well understood even though it is the most valuable part. For example fashion services include design, pattern making, sample making and marketing but when approached for sale of designs or suggestions of outsourcing manufacturing, fashion service providers are reluctant to give up the manufacturing components of the process, even though the value (profit) is in the design, not manufacture.

Business support services are essential to develop the services sector

A range of business support services will be required dependent upon the individual value chains involved, but broadly include:

- **Market information services:** Provision of market data including for international trade; targeted market research; customer segmentation; customer feedback surveys.
- **Product development and access to technology services:** Product design and adaptation; technology information;

Services as a driver of competitiveness



The key constraints facing competitive production in Barbados (agriculture, manufacturing and industry) are scale and vulnerability. As a result the approach to supporting the business sector in Barbados must necessarily focus on higher value niche products and services for both the domestic and export market. Higher value production requires higher quality of manufacturing and service delivery. It has been shown consistently throughout the world that higher quality comes from sustained provision of business development and support services. For example, the US

Government recently linked the manufacturing sector's resilience and competitiveness through the global economic crisis to US manufacturers' expenditure on business services. US firms spend about 30 per cent of value added production on business services. This compares to only 23 per cent in the UK and Italy, 18 per cent in Spain and Mexico and 13 per cent in Indonesia. Therefore, there is a strong case for increasing the availability of business services to manufacturers, agricultural producers and industry in Barbados to improve their competitiveness and help them grow. In addition, this will create a more vibrant domestic market for services that will provide an incentive for local manufacturers to increase their export capabilities.

technology transfer and commercialisation; equipment upgrade; relevant technical skill development.

- **Procurement and sourcing:** Information on input supply features, pricing and sources; facilitation of input supplier–entrepreneur linkages; facilitation of bulk buying (joint procurement) groups.
- **Training, technical assistance and advisory (strategic and operational aspects of business):** Business incubation for start-ups; feasibility studies and business plans; business counselling; twinning and mentoring of existing micro, small and medium enterprises (MSMEs); small business management training (including business and production process management); technical training related to production or service delivery; legal and taxation advice; accountancy, book-keeping and inventory management.
- **Distribution, transport and communication-related services:** Storage and warehousing; transport and delivery; information and communication technology (ICT) services.
- **Marketing services:** Trade fairs, product exhibitions and buyer–seller meetings (business-to-business matchmaking); advertising; packaging and labelling design; facilitation of sub-contracting and outsourcing.
- **Facilitation of access to finance:** Linking businesses to banks, micro-finance institutions and other non-banking financial institutions serving small and medium enterprises (SMEs) such as leasing and factoring companies and export credit agencies; providing information on credit schemes and conditions; assisting in business planning for loan applications.
- **Policy advocacy and industry representation:** Creating industry platforms and representing industry interests in public-private dialogue.

The potential impact of business support services on productivity can be extremely significant for firms. Even mandatory services such as auditing, if undertaken effectively and efficiently, can benefit business in terms of tax optimisation and investment planning.

Objectives of the NSSDP

The NSSDP is anchored in the Government's Medium-term Growth and Development Strategy (MGDS) 2013-2020. The MGDS aims to sustain private sector and investment-led productivity and export driven growth, based on an environmentally green and socially sustainable and equitable economy while radically adjusting and reforming the Barbadian economy. Within this framework, the objective of the NSSDP is to create an environment in Barbados that ensures the development and sustained growth of a high quality, high grade and high value services sector. If Barbados is able to create such an environment its services sector will not only grow but also create more and better jobs with higher wages and opportunities in line with the level of education and skill of its citizens.

To measure whether or not the correct environment for high value quality services is a reality, a single indicator was required. As there is no suitable indicator for 'conducive environment for services', 'value added per services worker' was considered to be the closest proxy. Therefore the target of the NSSDP is to increase average value added of each services employee in Barbados to 40 per cent per employee per annum by 2020. 2009 figures suggest that each employee in the services sector generates US\$18,376 net to overall GDP. Raising the average value added per employee by 40 per cent would increase this to US\$26,000, which translates into a little over 5 per cent growth per annum. The target needs to be adjusted for inflation, and a monitoring mechanism is required to track year-on-year and sector changes.

Design approach: Pillars of the NSSDP

The NSSDP is based on three pillars:

1. **Services sector development** – The focus is on placing services at the forefront of the national agenda in Barbados, creating a services oriented culture and economy where services are valued. Specific strategies include:
 - a. **Valorising services throughout the economy:** strategies that show the benefit to the economy, the business potential and the personal opportunities within the services sector to encourage a co-ordinated commitment to developing services.
 - b. **Creating a competitive services environment:** activities to ensure the domestic and international environment within which service providers operate is conducive to enabling all services in Barbados to be delivered efficiently and competitively.
 - c. **Ensuring services are delivered as a business:** encouraging the growth and development of services businesses that are able to compete globally and run professionally to make profits.
 - d. **Providing a pool of appropriate human resources for high value services:** the principal factor of production in the services sector is human resources. This is limited in Barbados due to the relatively small size of the country and so the existing pool must be maximised to enable future growth and development of the services sector.
2. **Services upgrading** – This part of the NSSDP addresses the quality of services provided. Being a relatively small country with a relatively small labour force, growth in the services sector must come from increasing the value of the services provided. This will be achieved through:
 - a. **Quality management** to ensure Barbados provides quality services domestically and internationally and becomes known for it, and that services providers are able to benefit and get a return.
 - b. **Quality Government services (leading by example):** Government is the largest services sector in Barbados and so various initiatives are required to inculcate quality service delivery across ministries, departments and agencies.
 - c. **Using services to improve efficiency throughout national value chains:** business support and development services are key components of competitiveness and encouraging the consumption of such services throughout national value chains in Barbados will not only grow the services sector but increase profitability and growth across the board.
3. **Services sector brand development:**
In addition to the more generic strategies that will apply across all services sectors, Barbados needs to focus on two or three priority sectors to promote internationally through increased export and investment. A number of services were profiled based on criteria such as global trends, value proposition for Barbados, prospects for employment creation and requirements for improved performance, among others. The emerging consensus on the priority sectors are tertiary education, knowledge processing outsourcing, and information and communications technology. By undertaking specific capacity building, policy advocacy and marketing activities, Barbados is expected to realise US\$300 million worth of exports by 2020.

Implementation of NSSDP

Countries that have succeeded in securing sustainable growth in services have done so through co-operation within the private sector as well as between the private sector and government. The development of a public-private Services Sector Development Strategy is the first step towards achieving the required level of co-operation. However, growth in services in Barbados will depend both on continued co-operation and effective and consistent implementation.

Figure 1. BCSI, the central hub in the implementation structure



The implementation structure of the NSSDP will therefore be a multi-tiered one that differentiates champions (promoting services nationally) with strategic guidance and practical actions, sustained by a central hub based at the Barbados Coalition of Services Industries. The structure, outlined in Figure 1 above, is underpinned by a monitoring and evaluation programme to establish baseline data and to monitor outputs, results and impact.

A comprehensive set of action matrices, comprising a detailed annual work plan for each component as well as higher level monitoring and reporting templates, are also being developed.

Barbados is in the process of establishing the necessary structures. It is anticipated that full scale implementation will commence before the end of 2015.

Trade Competitiveness Section (TCS): Work program for 2015/16

The Commonwealth Secretariat's Trade Competitiveness Section (TCS) of the trade division provides technical assistance (TA) to member countries for improving their supply capacities in order to exploit opportunities offered by international trade. Recognising the limited size of the domestic market in many member countries, TCS has a strong focus on export development, with interventions targeted at the national level and where requested, escalated to the regional and international level. Capacity building and knowledge sharing is a cross-cutting feature of the activities in TC.

TC's specific activities include:

- 1. Market Access** – Interventions in this area of work aim to secure sustainable market access for priority exports; and addressing selected supply side constraints through the development of strategic marketing plans.
- 2. Export Development Strategies** – This project supports member countries to design and implement strategic plans for trade competitiveness and export development, underpinned by mechanisms for effective dialogue with Government and non-state actors.
- 3. Enhancing the development and exports of services** – The services sector is a major contributor to employment in many member countries, especially youth and female employment. Exports of services can provide opportunities to create employment, diversify exports, enhance productivity and empower low skill workers. This area of work allows member governments to benefit from the new opportunities created by globalisation and trade liberalisation. Through this initiative, member countries are supported to identify local sectors with potential for increased investment and export development, and to devise strategies to effectively exploit them.

- 4. Trade Facilitation** – Trade relies on the services of a large number of agencies and service providers. Trade facilitation encompasses the process of identifying and addressing bottlenecks imposed by the weakness in trade related logistics and regulatory regimes that prevent the timely cost effective movement of goods. To deliver this short term outcome, interventions will focus on assisting member countries to reduce the costs of doing business and, as signatories to the WTO, to meet their international obligations in this area. Interventions are made through the development of strategic action plans, benchmark studies and reports, and capacity building in trade facilitation.

For 2015/16, the Section has received a number of new TA requests and will be providing TA to 13 countries with 18 projects. These countries include Barbados, Belize, Grenada, India, Jamaica, Kenya, Mauritius, Nigeria, Pakistan, Sri Lanka, Botswana, Sierra Leone, and Mozambique. The TA will be provided in the areas like- export diversification through 'new product and new market schemes'; value-addition to existing primary exports; economic and legal analyses of regional FTAs; economic implications of plurilateral trade agreements like Trade in Services Agreements (TiSA); designing national export development strategies; designing national strategy for Aid for Trade; development of services exports; linking into regional/global value chains; trade facilitation; and gender sensitisation of trade policy. Some of the requesting member states have also offered to share financial costs of the projects. In some cases TCS is partnering with other organisations for sharing costs.

Trade Express will share information and lessons learned from recent Commonwealth Secretariat interventions. Articles will discuss design and implementation processes; in particular, practical solutions for the perennial problems surrounding appropriate trade policy design, advocacy and strategic trade interventions.

Forthcoming issues

Issue 2: Jamaica's National Export Strategy 2015-2019: A Market Driven Approach

The National Export Strategy design process was highly participatory in which key stakeholders from across the private and public sector, civil society discussed prioritised sectors for targeted support to build export potential. The strategy includes a Strategic Action Plan, Implementation framework and Monitoring and Evaluation function.

Issue 3: Kenya Poised to Adopt International Transportation System

The geographical location of Kenya, combined with the status of Mombasa as a key transit port for neighbouring economies, particularly EAC Member States, underlines the rationale for ratifying and implementing the TIR Convention. Both the Northern Corridor and the planned LAPSET Corridor, fed by an enhanced Lamu Port, would derive significant benefit from a transit regime streamlined within a TIR environment.

Issue 4: India's Global Value Chains: Integrating LDCs

In order to raise the value captured by India in Global Value Chains (GVCs) and support its 'make in India' initiative, the intervention is designed to identify India's lead products where it can initiate its own GVCs and upgrade its small and medium sized firms. Integrating LDCs into these chains will enhance global cost competitiveness of India's product and diversify exports of LDCs.

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