

**December 7, 2004**

## Creating an Export Culture

### Overview

To keen observers of national affairs the presentation of the Minister of Finance would confirm that the general sense of unease in recent times concerning the Barbados economy was justified.

The challenges that confront us as a developing small island state are both significant and substantial. Many of which, though attributed to external global factors, require national solutions.

The Minister of Finance must be congratulated for his candour in laying before the Barbados public a clear picture of the challenges that we face. Of some significance is the growing trade imbalance. To his credit the Minister has for the time being, not adopted the knee-jerk policies so often used by Ministers of Finance such as: raising taxation or tightening exchange controls restrictions in an effort to curtail expenditure and mitigate foreign outflows.

Essentially, in layman's terms, the country is spending more than it is earning in foreign currency. In businesses when this imbalance occurs there is the propensity to cut expenses, but at the national level, expenditure cutting is not an easy option if, as a country, we wish to maintain our existing standard of living and to avoid a high level of unemployment.

The Minister has opted for policies aimed at increasing the country's export earning capacity, mixed with an element of import substitution, by encouraging local entrepreneurs to provide domestically some of the products we now import.

There are two challenges to the bold initiatives:

1. implementation, or the fruits thereof, could require a lengthy gestation period;
2. the initiatives require a significant cultural shift.

Regretfully, history seems to suggest that culture shifts of the nature and extent required, are rarely successful unless there is draconian imposition of national policy e.g. Lee Kuan Yew's Singapore model or the experience of some extraordinary trauma. Barbados has opted for change by consensus through the mechanism of the social partnership coalition. It is to be hoped that the coalition would be sufficiently persuasive to enable us to achieve the desired economic culture shift.

Government proposes to meet the principal challenges facing the economy, and to bring about further economic and national development, by introducing new measures principally to meet the following three objectives:

- to bring about institutional change;
- to build productive capacity; and
- to create a vastly improved enabling business environment built on service excellence, both in the public and private sectors.

The measures are a continuum of progressive changes announced by the Arthur administration over a period of time to refocus the economy on being a service-driven economy.

The principle initiatives enunciated were:

- the creation of Export Barbados Inc. for the promotion of our exports;
- the completion of the telecommunications liberalisation;
- e-government and business facilitation;
- revitalisation of the international business sector;
- legal and judicial reform; and
- building of social capital.

There were a number of sectoral initiatives aimed at spurring the development of the agricultural sector and assistance to the new venture - promotion of the cotton industry.

Manufacturing and tourism also received some assistance.

We felt however that the opportunity should have been taken to launch a comprehensive review of the legislative framework under which the private sector operates, and which is viewed in some quarters as a disincentive to doing business in and from Barbados.

The Minister's presentation is not a box of Christmas goodies. It is an honest and sombre analysis of our place in the global environment. It is a challenge for change - one which Barbados must embrace.

## Analysis

### National Initiative for Service Excellence (NISE)

The NISE has been conceptualised and designed by the social partners (the Barbados Government, the Private Sector and Labour). This initiative has been introduced to prepare Barbados for the challenges it will face with respect to the provision and delivery of products and service in a global market, accompanied by rapid changes in technology.

It consists of a number of core components by which the Service Excellence standards will be developed and measured:

- Research – gathering of information with respect to customers' service deficiencies.
- Development of Service Excellence Standards – developing and implementing strategies with respect to customer satisfaction and measurement of the progress.

Mechanisms for measuring service delivery will be by:

- Training - this is to be implemented in major sectors of the economy through Customer Service Excellence Trainers, who will promote such training across the country.
- Public Education and Awareness – this will be achieved through public discussions, the sponsorship of annual weeks of excellence and the distribution of information through the print and electronic media.

This initiative is expected to benefit the stakeholders in particular:

- customers;
- employers;
- employees; and
- the nation.

The Government and its social partners have committed to the initiative by signing the Declaration of the National Initiative for Service Excellence, and it has committed \$1.5 million to assist the implementation and operation of the initiative over the next three years.

### Comments

**The global market requires that organisations and by extension countries remain competitive with respect to the delivery of products and service. The major challenge of the Government and its social partners will be the implementation of the initiative through public awareness. However, Government appears to be fully aware of the challenges which it will encounter as it seeks to make this initiative a national one by educating the entire population and all spheres of the community through "...non-governmental organizations, churches, schools, the University of the West Indies and other institutions of learning..."**

**Given the increasingly competitive global environment in which the nation will be forced to operate, this initiative will assist in achieving competitiveness and global differentiation in the provision of "... world class excellence in the delivery of service."**

**The Minister pointed out that a move towards a culture of service-excellence will bring substantial benefits to customers, employers and employees of the nation as a whole. We concur with this, but question the adequacy of**

**motivational incentive. Public sector reform has not been very inspiring since it was announced some years ago and, if this initiative is to succeed, there would have to be worker participation in real and measured productivity gains applicable and tailored to every major aspect of economic activity.**

### International Business

The stated overall aim for the international business sector is to mould Barbados into a centre for international business and financial services, as well as a regional hub for CARICOM commercial enterprise. In addition, the following measures were announced in the hopes of expanding the base of this sector and increasing the domestic value derived from it:

- the designation of film and media production, educational and health services, shared services serving the CSME, exploitation of indigenous intellectual property (principally in the areas of art, dance and culture) and research and development activities in emergent technologies as pioneering activities, with local companies engaged in these activities being granted the benefits of international business entities for a period up to 15 years;
- the removal of stamp duty or other imposts on the amount secured by a charge or pledge of IBC shares or international societies with restricted liabilities' quotas;
- the introduction of Registered Agents legislation to standardize the level of service provided by local functionaries in the international business sector;

- the removal of the obligation to establish a bonded warehouse as provided under the Customs Act and exemption from the payment of annual private warehouse registration fees and the establishment of bond security, where the IBC's operations involve the importation, storage and re-exportation of large inventories;
- increase of funding to support the promotion and marketing of Barbados as an international business centre from \$2 million to \$5 million; and
- increase in the allocation to the Barbados Coalition of Service Industries in the next financial year from \$500,000 to \$600,000 to assist in its expanded marketing programme.

## Comments

**The removal of stamp duties on the charging or pledging of IBC shares and ISRL quotas along with the removal of the requirement for a bonded warehouse should help to improve the ease of doing business in Barbados.**

**Some marketing effort may be required in order to encourage businesses to take advantage of the benefits that may accrue under the proposed pioneering activities legislation.**

**However, overall the announced measures should go some way toward enhancing the integrity of our international business product and raising our profile as an international business centre.**

**Further impetus needs to be given to reforming the legislative framework under which the international business sector operates. The country needs to be proactive and listen to the market place to ensure that our legislation is updated to meet the challenges of the rapidly changing global environment.**

## Corporation and Income Taxes

### Corporation Tax

The legislated corporate tax rates for domestic companies to income year 2006 are:

Income Year	Corporate Tax Rate
2004	33%
2005	30%
2006	25%

Effective January 1, 2005, the corporation tax rate for manufacturing companies will be 25%. Therefore, the taxable income of companies whose fiscal period straddles this date will have to be pro-rated.

### Foreign Currency Earnings Tax Credit

The following activities have been added to the list of qualifying overseas construction and professional services which enable tax payers to claim a foreign currency earnings tax credit:

- information services;
- education services;
- investment management services;
- e-commerce services; and
- services provided by domestic companies to the international business sector by domestic companies.

## Personal Tax

The legislative changes in personal tax rates to income year 2006 are:

Income Year	Basic Rate	Higher Rate
2004	20%	40%
2005	20%	37.5%
2006	20%	35%

The basic tax rate applies to the first \$24,200 of taxable income, the higher rate to the taxable income in excess of \$24,200.

The changes in personal allowances up to income year 2007 are:

Income Year	Allowance
2004	\$17,500
2005	\$20,000
2006	\$22,500
2007	\$25,000

## Tax credit on dividends

The Minister announced that the Income Tax Act would be amended to allow persons earning dividends from non-treaty countries to claim a credit for taxes withheld at source.

## Comments

**The changes in the corporate and personal tax rates and allowances have been legislated since 2003. The expansion of overseas qualifying services for the foreign currency earnings tax credit should encourage entrepreneurs to offer services in the areas of information technology, education and investment management.**

**The Minister recognised that companies which are owned by Barbadian residents and are resident suffer a tax cost when investing in countries located outside of Caricom with whom Barbados does not have a tax treaty. This tax cost results from the withholding tax, which may be suffered on dividends paid from the country in which the foreign investment is held, not being able to be offset against the taxation which the recipient in Barbados would suffer on receipt of the dividends. The proposal is to allow the withholding tax to be offset against the tax liability of the recipient.**

**While we endorse the proposal it would be interesting to see what reaction the OECD would have on the matter.**

## VAT

Section 82 of the Value Added Tax Act, will be amended to provide for the imposition of interest on the reassessment of output tax only from the date of reassessment and not from the date of filing.

## Comments

**This will ease the burden on the registrant of extra charges and reduce the pressure on limited financial resources. It is also more equitable, since a VAT reassessment may be done months or even years after the filing of the original VAT return. We are however disappointed that the matter of interest and penalties on VAT voluntarily disclosed by a tax payer have not been addressed.**

## Export Barbados Inc.

The Minister proposed the establishment of a specialised institution (Export Barbados Inc.) to conceive of export promotion and development policies and programmes, as well as to oversee the implementation of initiatives to continually seek and exploit new export market opportunities.

### Comments

**The establishment of a company dedicated to the promotion of Barbadian exports is an excellent reintroduction of a former initiative that had served us well. We would suggest however that for marketing purposes this agency be empowered to authorise exporters to affix to their product the Export Barbados Inc. seal of approval for goods and services meeting certain quality assurance standards. This encourages excellence.**

## Manufacturing

Against the background of a sector that has remained stagnant in spite of Government's past incentives, further measures were introduced in order to move manufacturing forward:

- a new support programme, "Basic Industries of Barbados", by the B IDC to rebuild capacity in the traditional core areas of Barbadian manufacturing, namely, furniture and fittings and the beverage industry. This programme is to have the first claim on the additional resources of the Special Technical Assistance Fund;
- the seeking of joint venture arrangements with other Caribbean countries in the area of solar water heating, via the resources of the Industrial Investment and Employment Fund; and

- additional technical assistance of \$1 million for the next five years to the B IDC Special Technical Assistance Programme.

### Comments

**Robust competition is likely from mature markets with the onset of the CSME and FTAA regimes. As such, marketing and quality control remain key success factors for this sector and significant focus must remain on these areas. Businesses, particularly small business must be encouraged to take full advantage of the Government's incentives for manufacturers, for as long as they remain.**

## Tourism

The Government is of the view that a significant portion of the room stock deficit that is anticipated for the 2007 Cricket World Cup Series can be provided through the development of Community-Based Accommodation (Bed and Breakfast (B&B) or Home Accommodation) and has proposed the following:

- the creation of a \$5.0 million Bed and Breakfast/Home Accommodation Loan Fund for developers to carry out refurbishments, renovations or new construction required to meet B&B/Home Accommodation standards; and
- the creation of a \$30.0 million Small Hotels Group Refurbishing Scheme, by which concessionary debt financing would be made available to participating hotels operating under the Small Hotels of Barbados cooperative, at terms and conditions similar to those for the Small Hotels Investment Fund.

## Comments

**These measures should increase significantly the capacity of the smaller players in the industry to offer improved accommodation and ease the burden of debt financing of their operations.**

## Initiatives for service professionals

The Government proposed the following legislative amendments to assist certain professionals:

- the enactment of legislation to introduce limited liability partnerships;
- the amendment of sections 153 and 154 of the Companies Act to enable auditors to provide audit services via limited liability companies;
- the systematic review and amendment of regulations to ensure that all professionals can take full advantage of these structures; and
- amendment of the Registration Act for Accountants to give the Institute of Chartered Accountants of Barbados the responsibility and authority to discipline its members.

## Comments

**The introduction of legislation to facilitate limited liability partnerships and companies will be welcomed news for accountants and other professionals who have lobbied for this for some time. It would be unreasonable to expect professionals to operate in the same global arena without commensurate safeguards. This should bring these practices in line with their international and regional counterparts and help to reduce the business risk that may be inherent in their practices in an increasing litigious environment.**

**The facilitation for self-monitoring of the accounting profession under ICAB should also be welcomed, since this is analogous to the regulatory framework in other countries.**

## Agriculture

In light of the measured success of the incentives that were granted to this sector in 2003, further incentives have been offered. These are intended to increase domestic production for selected commodities, enable the upgrade of technology, attract new investment, particularly in non-traditional areas and reform the traditional export sector. The additional incentives are as follows:

- a rebate of 50% of the cost of approved embryos, up to a maximum of \$5,000 per farmer and \$20,000 per farmers' organisation, per year, for beef and dairy farmers;
- a rebate of 30%, up to a maximum of \$100,000 to cooperatives or partnerships of dairy farmers that establish a common milk parlour (where a partnership comprises a minimum of eleven (11) persons);
- expansion of the 100% Bajan initiative to provide local fresh milk to all primary schools across Barbados;
- the designation of \$2 million as counterpart funding to facilitate technical assistance from Brazil, China and Israel;
- a rebate of 25% of the costs of the components of greenhouses and hydroponics systems for crops or horticultural production, up to a maximum of \$250,000 per cooperative/partnership, (where a partnership comprises a minimum of eleven (11) persons);

- the designation of \$4.7 million for deficiency payments to independent growers and support for the Cane Replanting Incentive Scheme;
- duty free concessions on farm vehicles to new ventures subject to certain conditions so that this privilege is not abused;
- the establishment of a Disaster Relief Revolving Fund to provide farmers affected by recent floods with access to a revolving loan facility (the fund is to be administered under the Agricultural Development Fund and initially capitalised at \$2 million); and
- provision of a venture capital window of \$10 million, within the existing Agricultural Development Fund (ADF), to assist with the development of new agriculture related enterprises, cotton being earmarked as the first among the new enterprises to benefit from this facility.

## Comments

**The incentives outlined in the Prime Minister's address are a continuation of those presented over the past two years. Those implemented to date have resulted in limited but encouraging success toward the growth of this sector. It is hoped that these additional measures will further accelerate this process. However, we again query why no acceleration in the reduction of the corporate tax rate has been granted to agricultural enterprises, as has been done for those in the manufacturing sector.**

## E-Government and Business Facilitation

Government has recognised the slow bureaucratic processes for which the public sector is often criticized. As such, the implementation of the e-government programme has been accelerated; it

directs its focus on increasing the efficiency of the environment in which Government does business.

The Government has taken the initiative in implementing some technological based programmes with the aim of providing 24 hours service to businesses and individuals, such as Smartstream, EEPSI (The Enabling Environment for Private Sector Investment) and ASYCUDA (Automated Systems for Customs Data).

To facilitate the change in the business environment, the Barbados Integrated Portal Project, will be introduced to provide an electronic gateway to the services, information and knowledge contained in the public sector.

The Central Information Management Agency will also be established to incorporate the Data Processing Department, and be responsible for the development of strategies, policies and programmes geared at delivering governmental services through the use of information and communication technology.

Government utilising the new technology has sought to introduce a system of tax administration to facilitate more timely processing of payments and returns by the Department of Inland Revenue.

This system which is web-based technology, consists of four main components:

- an electronic filing system;
- an online transaction processing system;
- a document and workflow management system;
- a decision support system.

Citizens and businesses will be able to file and pay taxes electronically, while the new system will allow the Department to act as a collection agency for other Government tax agencies, thus facilitating one stop shopping and saving time for the tax payer.

It is estimated that the investment in the automated system will cost the Government approximately \$5.1 million over an 18 month period.

With the implementation of this system, Barbados will have one of the most modern tax administrations in the English speaking Caribbean.

### Comments

**These changes to the Government's technology and the communication system among Government Departments will be welcomed by all persons doing business in Barbados. It will also encourage companies to do business in Barbados as the bureaucracy required to complete what they often consider to be routine tasks hinder them considerably.**

**The Government should now look to the introduction of a comprehensive Data Protection Act and Computer Misuse Act.**

**In addition to the establishment of a Central Information Management Agency, the Government should consider the appointment of a Minister of E-Government.**

**The E-Government initiative will have its teething problems but, if properly implemented, will put Barbados at the technological administrative cutting edge.**

## Traffic Management

The following measures have been proposed to address the increased traffic congestion being experienced on Barbados' roadways:

- the creation of new overpasses at 7 to 9 junctions along the ABC Highway;
- upgrading of the existing traffic signals to a central computer controlled system will also provide a dramatic improvement in traffic management in urban and suburban Barbados;
- coordinating of traffic signals including variation in their timings in response to changing traffic patterns and to facilitate the passage of emergency vehicles;
- increasing the fleet of the Transport Board and return to service of those buses currently off the road; and
- implementing a Park and Ride system.

### Comments

**We concur with the Minister that congestion on our highways is a major social and economic irritant that impacts on productivity. We question however parts of the proposed solution. We concur with upgrading the existing signals to a central computer control system. However, the proposal for overpasses at 7 to 9 junctions along the ABC Highway needs careful evaluation.**

**The ecological impact studies which Government has always demanded from investors in major projects needs to be done in this case. These overpasses are in many cases unsightly and for an island whose main industry is tourism one wonders if there are not other feasible alternatives.**

## National Insurance and Pensions

The following changes were made to pensions and insurable earnings:

- effective January 1, 2005, insurable earnings increase from \$3,100 to \$3,190 per month; and
- effective January 10, 2005, weekly pensions increase as follows:

Contributory	-	\$105 to \$110
Non – contributory	-	\$86 to \$90

### Comments

**This change in the level of insurable earnings is in line with the reform of the social security system amended in 2002. From January 2005, the national insurance rates increase from 9.00% to 9.50% for employees and from 10.25% to 10.75% for employers. For an employee who works for \$3,200 per month the charges are as follows:**

Computation of National Insurance on monthly earnings of \$3,200		
Year	National Insurance	
	Employee (\$)	Employer (\$)
2004	\$279.00	\$317.75
2005	\$303.00	\$342.93
% increase	8.60	7.92

## Land Tax

Persons who own chattel houses and the land on which the houses are located will be taxed on the improved value and not site value.

## Comments

**This should give the owners the full benefit of the first \$125,000 of Improved Value tax free. However, the Land Valuation Act currently provides for the value of plant and machinery owned by a manufacturer to be included in the value on which land tax is charged. This provision acts as a disincentive to manufacturers to invest in additional plant and machinery and consideration should be given for the provision to be amended.**

## Land Registry

The Government has committed itself to making resources available to ensure that all land in Barbados is registered by 2010. This will involve a significant overhaul of the systems in place at the Land Registry Department.

### Comments

**The proposal for the reformation of the land registry is long overdue. The present system is burdensome, expensive and administratively inefficient. While we expect legal costs to be reduced as a consequence of this initiative, it must be recognised that legal costs are also influenced by legal liability and with the absence of title insurance facilities being available on the domestic landscape, we do not anticipate a significant reduction of legal fees.**

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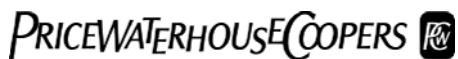
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