

**THE SUSTAINABILITY ON INTERNATIONAL BUSINESS
SERVICES IN BARBADOS**

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June 1997

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INTRODUCTION

Activity in the international business services sector¹ has grown rapidly over the past fifteen years. However, the contribution of the sector to the economy remains a subject of conjecture because of an inadequate database. Scattered data is available through public sector agencies like the Central Bank of Barbados², the Barbados Industrial Development Corporation³ and the Ministry of Finance.⁴ These sources reveal that international business services have been successful in generating jobs and foreign exchange and have helped to create alternative growth opportunities for the tourism driven economy. Several factors explain this trend, including favourable institutional and domestic conditions, but there is concern that changes in the international environment could impede long term growth prospects.

¹This sector is involved in a wide range of activities including those related to offshore banking, captive insurance and informatics. In addition, the sector contains international business companies and foreign sales corporations which engage in activities outside of Barbados (See Appendix 1).

² *Balance of Payments of Barbados: 1996*, Central Bank of Barbados.

³Barbados Investment Development Corporation: 'Statistical Report of Employment in Manufacturing and Services.'

⁴ *Barbados Estimates*.

This note consolidates and interprets the evidence on the growth of the sector. It highlights its contribution to the economy and examines the prospects for some areas of activity.

1. ECONOMIC CONTRIBUTION

Barbados remains relatively small in the context of locations offering international business services. However, the sector makes an important contribution to the economy. The growing contribution of this sector can be derived partially from the number of licences issued to foreign companies. The latest data indicates that the number of foreign companies active in the international business sector has more than quadrupled since 1988 (see Table 1). Growth has been strongest in terms of foreign sales corporations and international business companies. However, while exempt insurance companies also realized growth over this period, this grouping has stagnated since 1993. Offshore banks continue to be a small but growing share of the sector. Data for registrations of international business companies in 1997 support these trends (see Table 2).

Measuring the contribution of the sector to GDP has proven to be problematic because of inadequate information from the firms involved. Overall spending in the domestic economy consists of payroll costs, local expenditures and taxes. However, for the purposes of measuring the sector's contribution to the GDP local expenditures are not included so as to avoid

double counting. According to a 1994 estimate,⁵ local expenditures on goods and services constitute about 46% of domestic spending by the sector. By this estimate value added in the sector for 1993 accounted for between 2% and 2.4%, of nominal GDP.

In 1995, the Central Bank of Barbados (CBB) surveyed these accounting firms to provide estimates for the direct foreign exchange contribution of the sector. It is estimated that the sector contributed \$144.0m gross and \$124.2m net to foreign exchange earnings (See Table 3a). Fees collected from the sector are shown in Table 3b as information on corporation taxes was not readily available.⁶ Using the 1994 methodology value added in the sector in 1995 is estimated to be about 25% higher than in 1993. This represents a much faster rate of growth than for other major economic sectors.

Data limitations prevent a thorough analysis of the source of growth within the sector, but according to the CBB, the informatics sector accounted for 30% of foreign exchange earnings.⁷

⁵"The Financial Economic and Social Impact of the International Business Sector on Barbados", Ernst and Young, July 1994.

⁶ This statistic for the CBB includes spending unrelated to the international business services. On the upside, however, is that not all companies responded to the survey.

⁷The BIDC estimates foreign exchange earnings for 1994 at \$50m. Of this \$38.0m is captured in GDP, suggesting that the BIDC has better coverage or includes profits in its estimate.

Employment in the sector is estimated at over 3,000, with the major share of jobs coming in the female dominated labour intensive informatics sector (See Table 3c). However, following several years of rapid growth, employment in informatics declined during 1996. The 1994 study, on the basis of two companies in the informatics sector, reveals that 74% of spending goes towards wages in the informatics sector compared to 37% for all business services. This is broadly in line with BIDC data which suggests wage expenditures of 66% for 1996.

Employment in offshore banks averages three employees per institution, but for the rest of the international business services sector employment is substantially lower. Canadian captive insurance companies which write non Canadian business are required to employ at least six persons in order to qualify for tax benefits but similar stipulations are not placed on companies writing Canadian business. Foreign sales corporations generally have little local presence and are managed by accounting firms.

The benefits of the sector extend beyond these statistics to include increased tourism earnings, increased private sector investment in office buildings, improved technical skills in accounting, finance, banking, computers, etc.

PROSPECTS

1) Informatics

A 1996 World Bank study notes that the growth of the informatics sector is driven by demand by North American corporations to outsource information processing tasks. In the United States it was estimated that computer supported activities are growing at a rate of 14% to 15% per annum. A shared language, similar time zones and the relatively low cost and adaptability of the labour force to training gives the Caribbean a competitive edge. However, Caribbean countries face competition from outside the region (See Appendices 2a, 2b). The World Bank estimated that 20,000 to 30,000 potential jobs in areas such as claims processing, airline ticketing, transcribing records etc. are available to the region. However, new technologies are displacing low value added jobs and the trend will be for high value added services in the future.

Barbados has concentrated on the data entry aspect of the informatics sector, complementing this activity with claims processing, pre-press printing, software development etc. However, as indicated earlier, employment in the informatics sector has gone into decline locally. This is a source of concern because this sector has the greatest potential for creating new jobs while simultaneously providing the foreign exchange to finance private consumption. Technological changes have seen the closure of Donnelly and slowed the expansion of CDS. In addition, Canadian firms

engaged in claims processing have been affected by the Ontario government's efforts to prevent the exportation of jobs.

These developments underscore the need for expanding the range of activities in the informatics subsector. This will help to protect the economy against technological obsolescence etc. while creating opportunities for the multiple skills which are available in the labour market. The BIDC is targetting companies involved in prepackaged software, computer processing and data preparation and processing services and information retrieval services. Between 1988 and 1993 these subsectors demonstrated strong employment and earnings growth in the United States and therefore represent ideal candidates for outsourcing.

Recent incursions into software development represent an important move in this direction. If successful in this area, Barbados could benefit from this high value added activity, a crucial concern since according to the World Bank⁸ Barbados' wage rates for low skill workers are the highest within the region (See Table 4). This suggests that Barbados is at risk of losing existing and potential business to regional competitors if it is unable to maintain competitiveness.⁹ With changing technologies, telecommunications costs

⁸ 'Prospects for Information Service Exports from the English-Speaking Caribbean', by Robert Schwarc and Susan Hume, World Bank, March 1996.

⁹ The incentive framework is often important in corporate decision making. A comparative analysis appears in Appendix 1 of Schwarc and Hume, cited above.

are a pivotal factor in assessing competitiveness. Barbados seems to be broadly competitive in this area with other competing destinations within Caricom (Appendix 4). However, since these locations have a relationship with Cable and Wireless, a fuller assessment requires information from non Cable and Wireless carriers outside of this area.

At this stage the island suffers from insufficient technical skills to take fullest advantage of the opportunity provided in the area of software development (Appendix 3) but it receives spinoff benefits from the presence of high paid expatriate staff. Efforts to enhance the programming skills of Barbadian nationals will enhance prospects in this area.

2) Offshore Financial Services

Barbados has achieved success in offshore financial services by creating a low tax jurisdiction and by negotiating a network of tax treaties and tax information exchange agreements. However, changes in the institutional framework abroad have tended to dampen growth in some spheres of activity.

Barbados is the fifth largest captive domicile and has had to adjust to changes in US and Canadian legislation. Prospects for growth need to be assessed in terms of increasing the number of institutions offering existing

products, benefits accruing from increased activity by existing firms and the expansion of new products.

In a recent study Hammer and Brewer note that, despite the loss of the US tax advantage, Barbados still receives a steady stream of captive insurance companies. Revisions to the Exempt Insurance Act have been introduced to safeguard the Canadian market and the authors continue to see encouraging prospects for this sector but, in the absence of an upsurge in firms, there does not seem to be any significant potential for gains since this sector pays no taxes. Foreign sales corporations also appear to have limited prospects for the future. Essentially brass plaque in nature, Hammer and Brewer do not envisage any major increased demand.

The thrust of offshore financial services is therefore in the area of new products. The recently introduced provision for society with restricted liability has started slowly and according to Hammer and Brewer is likely to attract a narrow niche market. These authors see a potentially larger market for international thrusts and international mutual funds which can take advantage of taxation treaties to which Barbados is party. Both spheres of activity are fraught with regulatory risks but must be pursued to take advantage of existing legal and accounting skills.

Barbados' advantage in this area seems to have been its network of treaties. To open up new markets, this treaty network will need to be enhanced. Once the enabling framework is in place, the private sector, especially accounting firms with their international network, will have the onus of attracting new business. The public sector's role should be to work with the private sector to ensure that the economy is able to take advantage of new opportunities.

June 4, 1997

Table 1

TOTAL OFFSHORE COMPANIES LICENCED
AS AT END OF 1993 - 1997

	1988	1993	1994	1995	1996	1997*
IBCs	439	1171	1474	1822	2126	2266
FSCs	330	923	1172	1514	1726	1923
Exempt Insurance Companies (Active)	153	190	194	205	193	197
Exempt Insurance Management Companies (Active)	39	48	38	38	38	38
Society with Restricted Liability	-	-	-	-	14	22
Offshore Banks	5	19	26	33	40	41

* As At May 14, 1997

Table 2

NUMBER OF OFFSHORE COMPANIES LICENCED
DURING 1993-1997

	1993	1994	1995	1996	1997*
IBCs	372	302	348	437	140
FSCs	168	249	342	393	197
Exempt Insurance Companies	23	24	23	23	4
Exempt Insurance Management Companies	3	3	2	1	0
Society with Restricted Liability	-	-	-	14	8
Offshore Banks	5	7	9	7	1

*As at May 14, 1997

Table 3a

Foreign Exchange Earnings (BD\$000,000)					
1994	Financial Services	Computer Information	1995	Financial Services	Computer Information
CREDITS:	NA	40		100.5	43.5
As Percentage of:					
Services		2.5		5.4	2.3
Tourism		3.3		7.3	3.2
Exports		10.5		20.5	8.9
Total Credits		1.8		3.9	1.7
DEBITS:	NA	4.3		11.2	9.6
As Percentage of:					
Services		0.7		1.5	1.3
Tourism		3.6		7.9	6.8
Imports		0.4		0.8	0.7
Total Debits		0.2		0.5	0.4

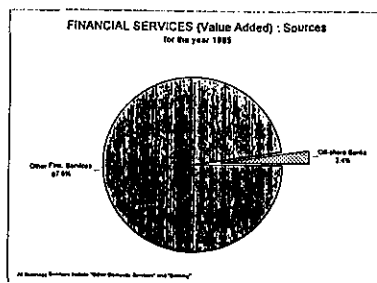
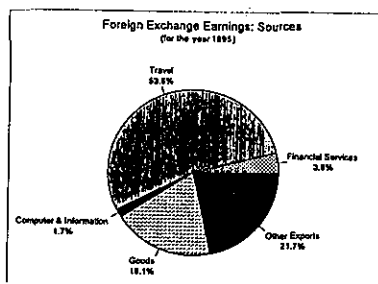
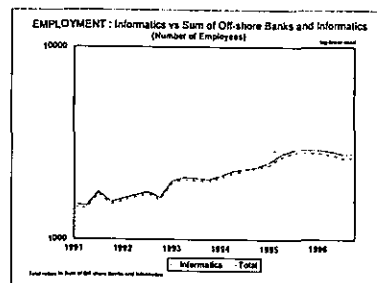
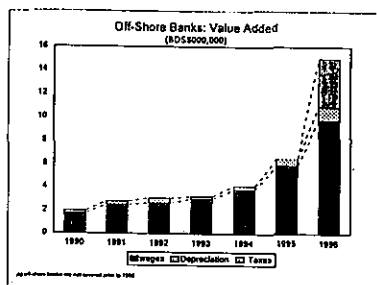
Table 3b

Fees Collected (BDS 000)										
	95-Q1	95-Q2	95-Q3	95-Q4	SUM	96-Q1	96-Q2	96-Q3	96-Q4	SUM
Foreign Sales Corporation	1515	294	164	177	2150	2137	218	146	163	2664
International Business Companies								98	18	116
Society with Restricted Liabilities								3		3

TABLE 4

Information Processing Services Main Competition: Data on selected countries(1995)						
Country	Comparative Wage Rates(US\$ per hour)			Size		
	Hourly Wage Data Entry Operator	Hourly Wage Secretary	Hourly Wage Voice Operator	Number of companies	Number Employed	Percentage in Data-Entry
Barbados	2.00_2.90	4.70_5.65	—	14	2300	88
China	0.60_1.50	—	1.1			
Dominica	1.10_1.60	1.75	—			
Dominican Republic	0.95_1.22	—	—			
Grenada	1.25_2.10	2.4	3.05	1	270	98
India	0.80_1.50	—	—			
Ireland	5.50_11.50	6.00_9.00	—	49	3500	76
Jamaica	1.10_3.00	1.75	1.1			
Mexico	1.25_2.00	—	—			
Philippines	0.70_0.80	—	—			
St. Kitts and Nevis	1.4	2.25	1.8	3	128	98
St. Lucia	1.10_1.70	2.10_2.50	1.7	1	50	98
St. Vincent & Grenadine	1.10_1.60	2.15	1.6	1		
Trinidad & Tobago	1.5	—	—	3	230	91
United States	7.00_9.00	8.50_10.00	8.00_12.00			

Source: Prospects for Information Service Exports from the English-Speaking Caribbean, by Robert Schwaro and Susan Hume, World Bank, March 1996.



Appendix 1

Informatics & International Financial & Business Services	
Activities	Definition
1) Informatics:	The informatic services utilize information processing, manipulation, or presentation of data as the core activity in creating value added. Activities include: - key data entry for magazine subscriptions, coupons, etc; - manuscript conversion from paper or voice to electronic files; - corrections and repair of "exceptions" in highly automated systems such as airline ticket revenue accounting; <i>information entry and judgement for health care claims processing;</i> - conversion of data bases from old file formats to newer, easier to use systems; - providing voice oriented and computer-supported call center operations for technical "help desk" or customer services; <i>Telemarketing, both inbound and outbound, for efficient sales and order entry processes;</i> - processing and analysis of market research data; <i>computer-aided design(CAD) services</i> for engineering operations; - geographic information services(GIS) for mapping; - document storage and management; - software program conversion for changes in large computer platforms; and <i>software development for a wide range of applications, some in support of the local informatics industry, and others for use by unrelated customers.</i> Source: "Prospects for the Information Services Exports from the English-speaking Caribbean" By Robert Schwarc and Susan Hume, World Bank, March 1996. Note: Barbados is involved in most of the above(see italics). Type-setting, pre-press printing, market surveys and archiving also done

Informatics & International Financial & Business Services	
International Business Companies(IBCs)	• general trading of goods (e.g. oil); • securities and commodities trading; • financing; • developing, licensing and marketing of software products • publishing; • information/data processing • financing and sale of equipment • licensing and sale of intellectual property rights • processing insurance claims • investment holding • acquisition and refining of primary metal products • container leasing • manufacturing of electronics • provision of technical services Source: "The financial, Economic and Social Impact of the International Business Sector on Barbados" A study prepared for: The Government of Barbados, July 1994.
Exempt Insurances Companies and Management Companies	• provision of management services in Barbados
Offshore Banks	offshore banking 1)receiving foreign funds through • the acceptance of foreign money deposits payable upon demand or after a fixed period of notice. • the sale or placement of foreign bonds, certificates, notes, etc • any other similar activity involving foreign money or foreign securities 2)either in whole or in part using foreign funds so acquired for • loans, advances and investments 3) acceptance in trust of • amounts of money in foreign currencies or in foreign securities • foreign personal or moveable properties or real or immovable property outside of Barbados 4)any other activity which the Central Bank may by regulation declared to be an activity related, incidental or ancillary to the above.

Informatics & International Financial & Business Services	
Foreign Sales Corporations(FSCs)	principally engaged in foreign trade transactions

Box 2.2. Ireland: Key factors in attracting export jobs

Cigna, an American company offering corporate health care plans, has set up a back office in Laughrea, an Irish village of 3,500 inhabitants. The office provides jobs for more than 80 local people, mostly women, and handles about 20 percent of Cigna's business by formatting and keying in about 5,000 forms a day. The center processes paperwork from patients, doctors, and corporate clients in the United States. Results are transmitted back on leased lines on a transatlantic cable to Cigna headquarters in Delaware, United States, in time for the start of the working day. U.S. paperwork is currently flown to Shannon airport, but in the future this could be transferred as images.

Technology investment

- Long-distance, and low-cost telecommunications based on fiberoptic trunks.
- Office automation based on PC networks.

Context

- High national unemployment and limited local employment opportunities.
- High migration to cities from the countryside.
- Scarcity of jobs in other countries (United Kingdom, United States) and difficulties of emigration.

Key factors which enabled this arrangement

- Educational surplus with available office skills.
- Skilled people willing to accept relatively lower wages (average starting annual salary is US\$11,000) rather than move to the city or remain unemployed.
- High-speed, low-cost communications.
- Openness and encouragement from government to overseas employers and aid for set-up.
- Availability of a vocational school capable of providing courses in office work and computing.
- Language capabilities.

Source: S. Forge, *The Consequences of Current Telecommunications Trends for the Competitiveness of Developing Countries*, World Bank, Telecommunications and Informatics Division, 1995.

ongoing activities. Many have existing offshore relationships in China, India, Ireland, the Philippines, and Sri Lanka; a few even have Caribbean experience (primarily contracting with Jamaican firms).

Box 2.1. Indian firms start at bottom and move up value-chain

India's software industry exports started to grow in the late 1980s when it offered low cost data entry services and on-site programming services to firms in industrialized countries. The total value of software exports now exceeds US\$300 million. About 150 of the 600 Indian software companies now operate on global contracts only mainly with the United States and Europe. The National Association of Software and Service Companies (NASSCOM) and the Electronics and Computer Software Export Promotion Council have been important agents in offering advice on industrial policies and acting as gateways to international markets and services.

At least three firms used data entry services as an inroad into international software production. Each has diversified its services and applications, and, over time, acquired higher technical and managerial skills essential for working internationally in the latest programming technology (object-oriented development for PCs and client server systems).

The software exports division of Datamatics, based in Bombay was set up in 1975 to provide reliable, outsourced data entry services. It now has 400 software professionals working in applications in banking, telecommunications, transportation, and government. It specializes in setting up dedicated offshore development centers for large corporations such as AT&T, Singapore Airlines, and the Itochu Corporation. Aware of the fact that market pressures are linked to customers, Datamatics has established 64 kbps linkages between Bombay and Singapore and Bombay and Plano, Texas. It has also introduced internal quality control procedures designed to meet international standards. The company's migration up the value-added chain has paralleled its demonstrable achievements and it has gained the confidence of overseas customers.

Decision Support International in New Delhi was founded in 1988 and has grown from US\$60,000 revenues in 1988 to US\$600,000 in 1994. Its 50 software professionals work on compiling mailing lists and text databases, producing CD-ROMs, and directory publishing and scanning services. Another 130 professionals are engaged in data entry and conversion services from hardcopy, microfilm and microfiche, and clerical services.

Infotech Enterprises of Hyderabad was founded in 1992 and provides software and support services in the fields of CAD and GIS to a range of Fortune 500 companies. Infotech has developed software packages for drawing information management, raster graphics editing and parametric modeling.

Customer requirements

Companies typically evaluate numerous economic and political factors in considering outsourcing activities off-shore. The simplest measurement used in determining outsourcing alternatives is comparative labor rates. Within the United States, low level data entry jobs have labor rates as low as US\$7 to US\$9 per hour. By comparison Caribbean labor rates can be as low as US\$1.10 to US\$1.40 per hour. This labor rate is higher than the Caribbean minimum

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Appendix 3

Barbados Target Industry Analysis
January 1997

SUBSECTOR OVERVIEW

Prepackaged Software (SIC 7372). This subsector classification covers establishments primarily engaged in the design, development, and production of prepackaged computer software. Important products include operating, utility, and application programs. Establishments of this industry may also engage in services such as preparation of software documentation, installation of software, and training users in the use of software.

The target is divided into numerous subgroups. A representative list includes:

1. Accounting Software
2. Banking Software
3. Communications Systems Software
4. Educational and Training Software
5. Financial Analysis/Management Software
6. Government Software
7. Health Services Software
8. Manufacturing Software Services
9. Office Automation Software
10. Technical/Scientific Software
11. Utility Systems Software

Details to these representative subgroups follow.

Appendix 4

*Cost of Telecommunication Services
to and from the Caribbean
(in US\$)*

TO NEW YORK, USA FROM THE CARIBBEAN

Type of Service	Barbados*	Dominica	Grenada	Rest of Jamaica	Jamaica Jamaica Digipoint	St. Kitts and Nevis*	St. Lucia	St. Vincent and Grenadines*	Trinidad and Tobago
International direct dial (IDD) toll rates, based on 3 min. call	5.51	6.21	4.40	3.23-3.82	0.57-1.88	5.01	5.55	5.73	3.10
International WU service Rate by minute Monthly charges	n.a. 2.00			1.14 n.a.	0.19-0.56 n.a.				0.05 40.00
Analog private lease lines (voice grade) Installation charges Monthly rate	1,250.00 n.a.			1,700.00 n.a.	3,000.00 n.a.				n.a. 316.00
Switched Se- half circuit Installation charges Monthly fee Rate/minute	Planned for 1995/96			1,500.00 200.00 0.75-1.25	1,995.00 100.00 0.43-0.80	Planned for 1995/96	Planned for 1995/96	Planned for 1995/96	
ISDN	May be shipped for ATA1				Planned for 1995/96				Planned for 1995/96

PROSPECTS FOR INFORMATION SERVICE EXPORTS FROM THE ENGLISH-SPEAKING CARIBBEAN

Type of Service	Barbados ^a	Dominica	Grenada	Rest of Jamaica	Jamaica Digipoint	St. Kitts and Nevis ^a	St. Lucia	St. Vincent and Grenadines ^a	Trinidad and Tobago
Leased circuits									
T-1 half channel/month	16,647.00	18,100.00	18,100.00	21,980.00	18,000.00	18,100.00	18,100.00	18,100.00	30,400.00
RT-1 full channel/month	n.a.	n.a.	n.a.	49,500.00	n.a.	n.a.	n.a.	n.a.	n.a.
Installation charge	1,515.00	1,850.00	1,850.00	5,000.00	n.a.	1,850.00	1,850.00	1,850.00	n.a.
56 kbps/month	2,080.00	1,995.00	1,995.00	2,800.00	1,812.00	1,995.00	1,995.00	1,995.00	3,400.00
Installation charge	1,263.00	1,850.00	1,850.00	1,500.00	n.a.	1,850.00	1,850.00	1,850.00	300.00
X.25 @ 9.6 kbps/linepacket charge				n.a. n.a.					20.00
LOCAL SERVICES									
Business line									
Flat rate/month	4.50	n.a.	n.a.	3.04	5.43	10.00	10.00	11.00	n.a.
Rate/minute	n.a.	0.10	0.10	1.50-3.47	n.a.	0.06	0.10	0.09	n.a.
Residential line									
Flat rate/month	17.00			Values with exchange		8.00	9.00		5.00
Rate/minute	n.a.			0.62-1.04		0.07	0.10-1.50		n.a.
Centrex									
Rate/month	22.00-45.00								
Installation charge	500.00								
FROM NEW YORK, USA - TO THE CARIBBEAN									
IDD toll rates based on 3 min. call	2.15-5.51	2.15-5.51	1.99-5.04	1.99-4.13	2.14-5.51	2.14-5.51	2.14-5.77	2.16-5.51	2.23-4.43

a. Based on AT&T's Customer Plan for large volume business users.
b. One hour minimum for international IDD services.
c. Special rates for interstates.
d. Residential charges have unlimited times.
e. Business rates are for each 2-minute use between 6 a.m. and 6 p.m., and each 3-minute use between 6 p.m. and 6 a.m.