

# *Barbados Short and Medium Term Action Plan*

Prepared by  
The Special Working Group on the Economy

December 12, 2008



## ***Introduction***

This is a crisis Barbados cannot afford to waste.

Managing the unfolding global economic crisis and the threat it poses to social stability and the continued advance of the Barbadian economy will be much more about communication, consultation and changes in the ways of doing business than it will be about economics. It provides an opportunity to undertake a root and branch reform of public and business administration, to raise standards and to achieve the efficient and cost-effective delivery of goods and services to the public. Because of the heavy dependence on tourism and international business services such actions are necessary if the country is to weather the current economic crisis and emerge as a competitive player in the global economy. Barbados is operating in a dynamic and changing environment driven by a viral infection in global financial markets, the gathering gloom of recession in major industrial and emerging market economies, technological change, integration of global trade and the expectations of its citizens for continued increases in living standards and ever higher levels of efficiency in both the public and private sector.

The country has in the past demonstrated a remarkable capacity to recover from economic downturns but neither the trajectory nor the cure of the unfolding crisis can be clearly discerned. Recent events in financial markets as well as the recession – some now say the threat of deflation in the US – in the major industrial economies have created new challenges for emerging market economies. As hopes for a short recession in 2009 quickly fade, preservation of the steady social and economic advances that have been made over the last four decades must be foremost in the minds of policy makers in Barbados. Overly ambitious counter cyclical economic measures run the risk of adding an

***“The dogmas of the quiet past, are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise -- with the occasion. As our case is new, so we must think anew, and act anew.”***

***Abraham Lincoln,  
Annual Message to  
Congress -- Concluding  
Remarks, Washington,  
D.C. December 1, 1862***

internally engineered crisis to the externally generated one. The consequences of such action would be exactly the opposite of the desired outcome.

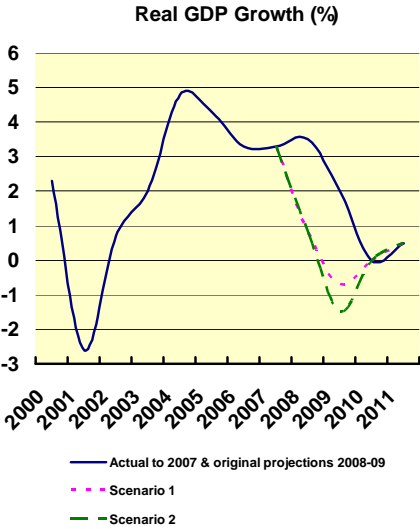
While this ***Short and Medium Term Action Plan (Action Plan)*** proposes that Government uses its limited room for a modest fiscal stimulus, it also places emphasis on other measures that will allow Barbados to emerge from the current crisis as a more competitive economy well able to respond to a changed global environment. The proposed policies and measures follow the analysis of the current situation and the prospects. They are also summarized in a matrix with a timeframe for action, identified actors, known risks and expected outcomes. The urgency with which the proposed policies and measures should be undertaken, clearly evident from the time frame for action, cannot be overstated.

This is not intended to be an exhaustive list of policies or actions that may be taken; for that more intensive and extensive consultations would have been necessary. It is hoped, however, that the recommendations of the ***Special Working Group on the Economy*** will provide a focal point for discussions with the social partners to build consensus on such vitally important issues as public sector reform, the size, structure and functions of government, and the role and responsibilities of the private sector and the labour movement.

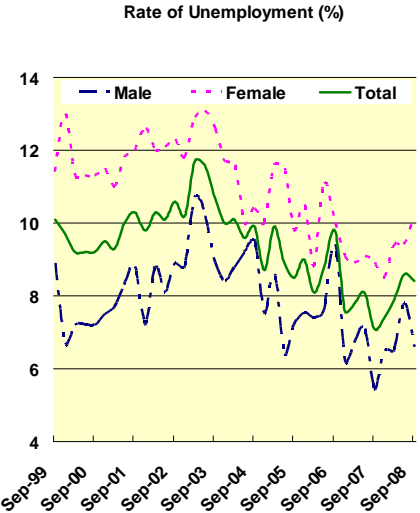
**Current Situation and Prospects**

The Barbados economy has been performing below expectations during 2008. At the beginning of the year the Central Bank expected real GDP to grow by 3.0% to 3.5%, which was in line with the average for the five years after the downturn in 2001 but down from the 4.3% growth recorded in 2007. By the end of the third quarter of 2008 real growth was estimated at 1.7% compared to 3.5% for the corresponding period of 2007. This was the slowest rate of growth in real GDP since 2003 and growth for 2008 is now expected to be less than one percent. Unemployment also rose during the period and there was a sharp rise in inflation due in large part to rising oil and other commodity prices. Although by the end of September international reserves were down by only \$15.1 million, the buildup in the early part of the year was sharply reversed by an outflow of \$129 million in the third quarter alone. Since then the decline has continued and at 10 December the international reserves were \$170 million less than at the end of 2007. Liquidity in the banking system was higher than at the end of 2007 and as a result the Central Government was able to finance the deficit from domestic resources.

Tourism, the principal foreign exchange earning activity, is already showing evidence of the impact of adverse economic conditions in the major markets. After the strong 10.8% increase in the first quarter, the number of long-stay visitors declined and by the end of September was the same as a year ago. In contrast, and probably indicating an emerging trend in vacation preferences, cruise passenger arrivals rose by 11.2% in the same period. International business registrations were moderately lower than in 2007. In 2008 new licenses were issued for 371 IBCs, 75 societies with restricted liability and one offshore bank, compared with 334, 126 and 5, respectively, in 2007. Construction activity has declined considerably as a result of the freeze in



Source: Central Bank of Barbados; Barbados Statistical Service and Working Group Estimates



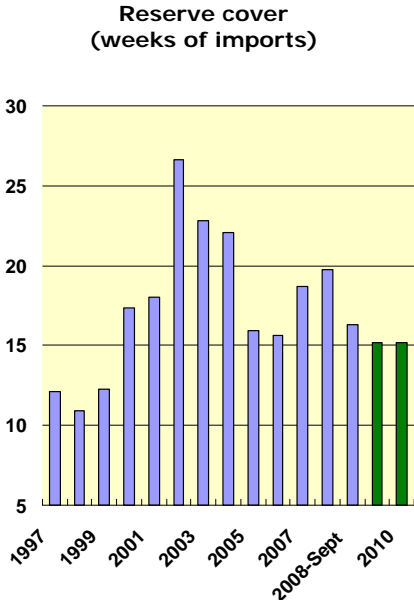
Source: Barbados Statistical Service; Central Bank of Barbados

the global credit markets and the collapse of at least one foreign bank that provided financing for a number of residential projects; agriculture continues its downward spiral as more and more land is alienated from the sector for residential and recreational development, and manufacturing remains sluggish.

The financial sector in Barbados is expected to remain relatively unaffected by the crisis that is currently crippling banks and other financial institutions in the industrial economies. Growth in the assets of the banking system, though slower than in 2007, has been a healthy 5.3% compared with the average of 4.0% for the corresponding period of 2003 to 2006. Despite withdrawals of approximately \$232 million from the banking system in the third quarter of 2008, deposits for the year to the end of September rose by 5.7%, a rate of growth that was 8.1 percentage points lower than for the corresponding period of 2007.

In the public sector preliminary estimates indicate that the fiscal deficit has almost doubled as a percentage of GDP; it rose from 1.7% of GDP in the first nine months of 2007 to 3.4% of GDP in the corresponding period of 2008. Revenue in 2008 was higher than in the preceding year but expenditure expanded at a faster rate as well. Government financed its deficit mainly from domestic sources: credit from the Central Bank rose by \$97.4 million compared to \$104 million in the corresponding period of 2007 and credit from commercial banks rose by \$140 million.

The balance of payments has deteriorated quite sharply mainly as a result of higher imports but also as a result of lower net capital inflows. The deficit on the current account of the balance of payments rose from an estimated \$313 million in 2007 to \$552 million in 2008, or from approximately 7.0% to 10.0% of GDP. Fuel imports, driven by the rise in crude oil prices, increased by 113.8% but consumer goods rose by



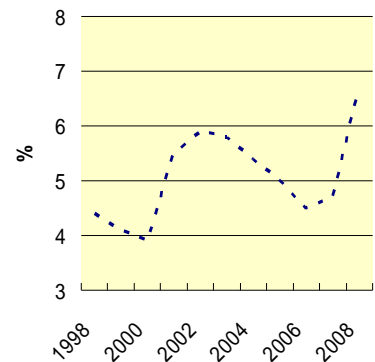
Source: Central Bank of Barbados

only 3.5% despite a 15% increase in the value of food and beverage imports. Exports of domestically produced goods, which hardly increased in 2007, rose by 9.0% in the first nine months of 2008. Preliminary estimates suggest that an increase in amortization payments and repatriation of profits resulted in a smaller net capital inflow compared to the corresponding period of 2007.

When 2008 began the prospects for the economy, though not as robust as for 2007, were for growth in line with the average since 2003. All this has now been changed as a result of the speed at which the sub-prime crisis in the US infected the global financial system. In February 2008 there was an expectation that the worst of the crisis had passed largely because credit spreads in the inter-bank market and insurance premiums on collateralized debt obligations (CDOs) were returning to trend. But such hope was short lived, torpedoed by the near collapse of Bear Stearns. Since then the news has grown steadily worse. All the major industrial economies are in recession, defined as a decline in GDP for two or more consecutive quarters. In the US the discussion has turned to strategies for staving off or responding to deflation, or a fall in the general price level as a result of a fall in consumer demand.

Unemployment is also rising in all the major economies and in the US as the outlook worsened, job cut announcements have been occurring at a fast and furious pace. In November employers in the US announced the loss of 533,000 jobs, the highest monthly loss in 34 years. The US has shed more than 1 million jobs so far this year, according to the Department of Labor, and the Federal Reserve is predicting that the unemployment rate, expected to remain around 6.7% for the remainder of 2008, will rise to 7.6% in 2009, a somewhat more optimistic outlook than the Goldman Sachs forecast of 9% for 2009 with a further increase in 2010. A similar picture has

**US Unemployment Rate (%) (November)**

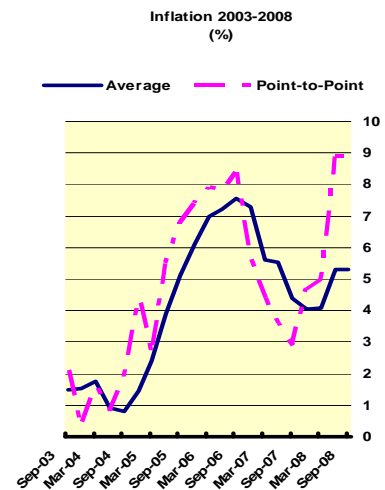


Source: US Department of Labor

emerged in Europe as well where the latest OECD information indicated that recession has spread to Germany and Italy. Of particular interest is the situation in the UK, Barbados' major market for tourism and inward investment: output is projected to decline until around the first quarter of 2010 and the number of unemployed persons is expected to reach 2.0 million by the end of 2008 and almost 3.0 million by the end of 2009.

In reacting to the deteriorating economic situation a number of governments have introduced fiscal packages to stimulate aggregate demand, unfreeze credit markets and prevent further falls in output and employment. But the amount that has been spent out of the US \$700 billion bailout plan enacted by the US Government has so far failed to achieve its purpose of unfreezing credit markets, or has been directed to other objectives, also with little apparent success. Interest rates on corporate bonds, which reflect investor fears of default, have soared and there is still a lack of confidence in financial institutions as evidenced by the US Government's rescue package of Citigroup after the recent plunge in its share price. By the close of the market on 21 November the fall in the price of the shares of Citigroup, according to the *New York Times* (*Citigroup Pays for a Rush to Risk*, 23 November, 2008) had reduced the value of the company from \$244 billion two years ago to just \$20.5 billion. Nor has Government support for AIG, and for Fannie Mae and Freddie Mac, which have taken the helpful step of declaring a temporary halt to mortgage foreclosures, abated the need of these institutions for further cash injections.

The one bright spot in the economic news is that inflation is abating as the price of oil and other commodities decline. But the fall in oil prices adversely affects an important CARICOM partner, Trinidad and Tobago, and therefore not an unmitigated blessing for Barbados. In the US the plunge in commodity prices is contributing to the



Source: Barbados Statistical Service; Central Bank of Barbados



slower rate of inflation, or as in the case of gasoline, to an actual decline in consumer prices. Inflation, after increasing 3 percent in 2008, is now expected to rise by 1.8% in 2009, the smallest gain since the last official recession in 2001. In the UK inflation is projected at 4.5%.

As a result of the continuing deterioration in the economic outlook the President of the US convened a Group of Twenty (G-20) Summit on Financial Markets and the World Economy on 15 November in Washington to agree a coordinated response to the ongoing crisis. In their Communiqué the leaders recognized that the economic situation of the emerging and developing economies was not as a result of policy failures on the part of those economies. They therefore encouraged the use of fiscal measures to stimulate domestic demand but cautioned that this should only be done "...while maintaining a policy framework conducive to fiscal sustainability." They also committed to helping "...emerging and developing economies gain access to finance in the current difficult financial conditions, including through liquidity facilities and program support" such as the Liquidity Program for Growth Sustainability of the IADB.

Other areas of emphasis for the G-20 leaders were greater cooperation in financial sector regulation, cooperation in tax information exchange and the revival of the stalled Doha Round. However, it is probably too soon for this show of global cooperation and support for an agreed set of policy measures to have a positive impact on the markets or on consumer sentiment, as spending is determined more and more by ability to pay and less and less by availability of credit. Consumer spending is also being curtailed because of loss of wealth or employment; new investments are being deferred either through lack of credit or because of the deteriorating outlook; and major money centre banks are still reeling.

### ***Scope for Action***

Given these global developments Barbados must examine and take advantage of the available but limited scope for defensive action if the country is not to be thrown off-course from achieving the status of “a fully developed society that is prosperous, socially just and globally competitive.” as laid out in the ***National Strategic Plan 2005-2025***. The short and medium term outlook for the economy has changed and only modest growth is expected in 2008. For 2009 the best case is zero real growth and the worst case is for a fall in line with the UK and the other industrial economies. It could well be the end of 2011 before real growth resumes, an expectation that is in accord with previous experience. After the 1990-92 recession, real output did not reach its 1989 level until 1997 and after the drop in 2001 the economy did not recover the loss in output until 2003.

When the recovery comes it will be accompanied by a changed environment characterized by a more cautious consumer and discriminating foreign investor, a more stringent regulatory regime for the financial sector and greater cooperation in the exchange of tax information between countries. It will also be an economy even more global in its outreach and even more technologically sophisticated. In the new environment it will be imperative for the Government and the Social Partners to respond to the challenge of preserving the gains in the reduction of poverty and inequality that have been the hallmarks of Barbadian society. In the downturn this means taking steps to preserve current levels of employment and real income, and to extend the social safety net to protect the vulnerable and the unemployed while avoiding policy actions that could destabilize the economy, and threaten the balance of payments and the exchange rate. It also means developing a

***“a fully developed  
society that is  
prosperous, socially  
just and globally  
competitive.”***

***National Strategic Plan  
2005-2025.***

programme of economic and other actions, including a plan for communication and consultation to keep the public aware of developments and progress with policies and other measures to avoid the worst and to seek input into innovative courses of action to be taken by the Social Partners. These measures will also continue to yield benefits in the upturn when it comes.

While the threat to the economic stability of Barbados and other developing countries cannot be attributed to domestic policy failures, the response, if not carefully calibrated and managed, could make the current situation worse. It is for this reason that the measures proposed by the ***Special Working Group on the Economy*** place as much emphasis on institutional changes as on macro-economic policy measures. The policies and actions are grouped into three categories: general, macro-economic and sectoral. Actions and policies in the general category are designed to build public confidence, improve the efficiency of public administration and to facilitate doing business in the country. If successfully implemented they will enhance Barbados' reputation as a business location and will make the economy more competitive, leading to a ranking on the Global Competitiveness Index (GCI) which will be higher than the current rank of 47 out of 130 countries. The macro-economic measures are designed to prevent a sharp fall in economic activity and to protect employment, the balance of payments and the exchange rate. Sectoral measures are based on the plans in a number of areas that have or are being developed to cope with the anticipated unfavourable economic conditions.

*Communication and Consultation:* The importance of communication and consultation in maintaining public confidence in Government's actions in the current economic situation, with its many unknowns and fast moving pace, cannot be overstated. Government will have to play the

leading role in informing and educating the public. The support of labour and business leaders will also be vital to the success of this effort. All parties will need to take great care to stick to a common script and to avoid conflicting or confusing messages. Government needs to repeatedly say: what it intends to do, that it is doing what it intended and that it has done what it intended to reinforce the message of consistency between intentions and actions. The Social Partnership will be an important consultative institution for building a consensus that allows the country to ride out the exogenous shock and avoid creating an endogenous one. The present situation would benefit from the establishment of a Council of Economic Advisors with members from the private sector, the labour movement and the academic community who will not be constrained by institutional limitations.

***“Government needs to repeatedly say: what it intends to do, that it is doing what it intended and that it has done what it intended to reinforce the message of consistency between intentions and actions.”***

*Social Partnership:* The Social Partnership has emerged as an institution of immense value in times of economic stress and uncertainty. As a mechanism for consultation and collaboration it will also have a significant role to play in crafting and delivering messages to the public and monitoring the implementation of actions designed to stabilize and improve the competitiveness of the economy. The Social Partnership, however, will only be able to play this role only if there is a schedule of frequent meetings during this period. These meetings should provide an opportunity for the exchange of information on current domestic and international economic developments, for discussion of policy changes and for updates on the implementation of the **Action Plan**. The regular meetings of the Social Partnership should also assist the private sector in developing its capacity to speak with a single voice.

***“The Social Partnership ... an institution of immense value in times of economic stress and uncertainty.”***

*Public Sector Reform:* Reform in the way that public administration operates in Barbados is a necessary condition for successfully managing the unfolding economic crisis and for maintaining and

improving the country's reputation as a competitive business location. Public sector wide service standards should be at the core of the reform and the officials with the responsibility for achieving the standards should also have the authority required for achieving them. The reforms should break down silos and promote the notion of teams within and across ministries and departments responsible for the implementation of public policy. They should also create an environment that values and rewards initiative and innovation.

The immediate focus of attention should be on critical areas of the public service such as the Office of the Attorney General which is responsible for the Corporate Affairs and Intellectual Property Office (CAIPO), an important initial point of contact for setting up a business in Barbados, and the office of the Solicitor General, which is vital in contract preparation and has been cited as the first hurdle that determines the speed at which projects funded by the multilateral development banks (MDBs) can be prepared for implementation. Both of these offices have been identified as major bottlenecks by the private sector. Other critical agencies include Customs, where a modernization programme supported by the IADB is about to start, the International Business Unit (IBU) and the Barbados Statistical Service (BSS) because of the vital link between accurate up to date information and good policy, Immigration and Town Planning.

The public sector reform effort should also place Barbados on the path to fully-fledged e-government as greater use is made of information and communications technology. Moving towards e-governance has the additional advantage of creating the infrastructure for state of the art ICT, a key ingredient for creating a knowledge society, and which would also benefit the private sector and households. In the long-run the reforms should increase the efficiency of revenue collection, result in better project implementation, reduce response

***“Public sector wide service standards should be at the core of the reform ... officials with the responsibility for achieving the standards should also have the authority necessary to enforce them.”***

***“...critical agencies include ...the Barbados Statistical Service (BSS) because of the vital link between accurate up to date information and good policy.”***

times and transactions cost for businesses, and lead to higher productivity in the public sector.

But even when a particular function is performed efficiently it will be of no value if there is no need for the output in the first place. Public sector reform should therefore not be limited to the cost effectiveness, efficiency and speed of processes, but should also extend to the reason and the need for existing structures and services, and the size and functions of Government. This will require in depth studies and investigation and is an undertaking for the medium and long term. It should, however, be initiated immediately.

*Project Management and Implementation:* Government should immediately establish a Cabinet sub-Committee, with the power to resolve all matters that hinder efficient project implementation. The Sub-committee itself must adopt service standards to avoid becoming a bottleneck and therefore defeating the purpose of its formation. Delays in project implementation contribute to cost and time overruns and, where projects are funded by MDBs, the paying of high commitment fees to these institutions. Simultaneously, Government should embark on a sustained programme of training in project management for officers in line ministries to improve the capacity of those ministries in project execution and management.

*Citizen and visitor security:* The rise in unemployment is usually accompanied by a spike in crime and anti-social behaviour against citizens and visitors. Before the situation begins to deteriorate the authorities responsible for security should strengthen community policing, improve surveillance and communications equipment and improve inter-agency cooperation.

*Professional Services:* There should be a national effort to establish standards for all groups of service providers. These standards should not only

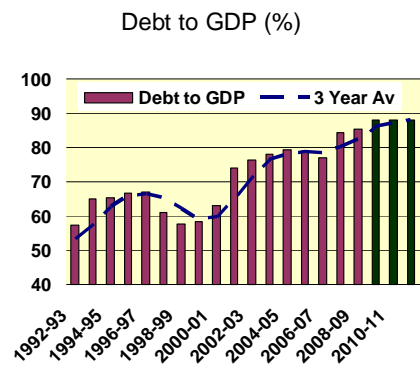
***“... reform ... should also extend to the reason and the need for existing structures and services, and the size and functions of Government.”***

***“The Sub-committee itself must adopt service standards to avoid becoming a bottleneck....”***

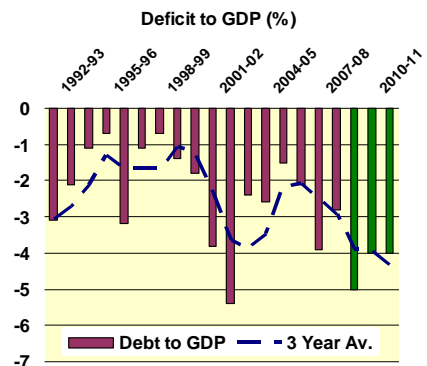
be designed to satisfy local needs but they should also target export potential under the EPA and other trade agreements. One of the perennial complaints from the private sector and the general public is the inordinate delays and high cost of legal services, a complaint that also extends to a wide range of other service providers. The National Institute of Service Excellence (NISE) and professional bodies such as the Bar Council should become engaged in the national effort to develop service standards which conform to international norms.

*Fiscal Stimulus:* To mitigate the effects of the expected contraction in economic activity in the near and medium term, the government should inject a fiscal stimulus of between \$80 to \$120 million, 1.0% to 1.5% of GDP, into the economy. A stimulus at this level can be accommodated without threatening the balance of payments and the country's credit rating. This expenditure and the consequent multiplier effect will provide the economy with a much needed shot in the arm. The stimulus should be directed to projects with high social and environmental impact and activities that are capable of replacing some of the lost employment in the construction sector.

Projects that meet these criteria include an expanded lower and middle income housing program, a national road repair and lighting program, the modernization of the water mains system and the waste to energy project. The stimulus should combine short to medium term preservation of employment benefits with long term capacity building. Part of the package should also be used to market and promote foreign exchange earning or saving activities such as tourism, the development of opportunities in international business services, export manufacturing and domestic food production. As a result of the stimulus both the debt and the deficit to GDP ratio will increase, above the three-year trend, in the case of the deficit to GDP ratio,



Source: Ministry of Finance



Source: Ministry of Finance

and they should be brought back in line by fiscal 2011-12 or earlier if possible.

*Social Safety Net:* Government should consider measures to enhance the social safety net in what could be a difficult period with rising unemployment. Temporary changes to the unemployment benefits scheme, however, should only be implemented after careful analysis and probably not before the middle of fiscal 2009-10. The temporary changes could take the form of either an increase in the benefits, an extension of eligibility or a combination of both. The Training Fund should be activated and used for re-training or training of workers who are laid off or placed on short-time.

*Tax Administration:* Government should proceed expeditiously with its plan to establish a central revenue authority, as part of both tax administration and public sector reform. This new institution should begin its life with set standards of service, especially with respect to the time frame for paying refunds due to the public and for collecting arrears due to Government. The authority should also undertake reviews of tax policy on a fixed cycle to ensure that Barbados follows best practice in tax administration and policy and that the integrity of Government's revenue is safeguarded.

*Monetary Policy:* The Central Bank has reduced the minimum deposit rate by 125 basis points since November 2007 but has left its bank rate, i.e. the rate at which it lends to commercial banks, unchanged. Any reduction in this rate from its present level of 12% will provide the Central Bank with an opportunity to signal a reduction in interest rates in Barbados in line with the actions taken by the major industrial economies. But, unless the liquidity in the financial system becomes considerably tighter, changes in the bank rate will have little effect on commercial bank lending rates. Monetary policy, however, has to remain flexible to



respond to the adverse impact of increased consumer spending on the international reserves.

*Reserve Management:* The preservation of the gains made by Barbados requires that the nation emerges from this crisis with its fixed exchange rate regime intact. Given the expected contraction in the foreign exchange earning sectors Government has to ensure there is an adequate cushion of foreign exchange reserves. Therefore, as recommended in the Communiqué of the G20, Barbados should take advantage of the liquidity programs made available by the international financial institutions as a form of insurance against the continued freeze in the international credit markets. This transaction will increase the debt to GDP ratio to approximately 88.0% in fiscal 2009-10 but such an increase could be justified if the proceeds are carefully managed and treated as an insurance policy against the lack of external liquidity.

*Financial Sector Regulation:* Commercial banks are relatively well regulated in Barbados but the regulatory framework for non-bank financial institutions, which are becoming increasingly important actors in the financial system, needs to be strengthened. Government should proceed with plans to consolidate and strengthen the regulatory framework for non-bank financial institutions, especially now that the experience in the US has clearly shown what havoc can be wrought by weak regulation. Regulation of the non-bank financial institutions should be accompanied by the introduction of reserve requirements on their deposits to reflect the role which these institutions are playing in credit creation.

*Wages and Incomes:* The current economic conditions have refocused emphasis on a wages and incomes policy based on gains in productivity and on ability to pay. Dividend policies and profit sharing schemes should also be related to ability to pay. The private sector, labour and the

Government working together should get the message across that wage rates cannot keep up with inflation that is in excess of productivity gains, without adverse consequences for employment, the balance of payments and the future growth and competitiveness of the economy. The cooperation of the Social Partnership will be instrumental in persuading the private sector to moderate mark-ups and in persuading the public at large to accept the pass-through of costs consequent on the rise in the price of crude oil and other commodities. Additional information such as wage, productivity, import price and wholesale price indexes, prepared and published on a predictable schedule by the Barbados Statistical Service would allow the public to have a better informed view on the relationship between international commodity prices and the cost of living in Barbados.

*Tourism:* The outcome for 2008 is not expected to diverge substantially from earlier forecasts but some hotels have started discounting their rates, some travellers are shortening the length of their visit, and according to anecdotal evidence, are also spending less on ancillary services. The expectations for 2009 are not encouraging nor should a quick recovery from any decline in tourist travel be expected. The UK market, already affected by the loss of airlift, will now be also hit by the latest taxes on long haul travel proposed in the Pre-budget Report of the UK Chancellor of the Exchequer and by the weakening of sterling against the US dollar. In an effort to limit the decline in visitors the focus of the BTA and its partners in the industry will be on: defending airlift; renewing, intensifying and re-defining promotional programmes, including targeting meetings, incentives, conferences and events (MICE); providing incentives for distributors; targeting non-traditional markets; and expanding the tourism product by, among other things, promoting heritage tourism, and promoting Barbados as a fly-stay-cruise hub and health and wellness centre.

**Tourist Arrivals (000)**

Period	Long-stay Visitors	Cruise passengers
1997	472	518
1998	512	507
1999	514	433
2000	544	533
2001	507	528
2002	497	523
2003	531	559
2004	551	721
2005	547	564
2006	562	539
2007	574	616
2008 (P)	574	656
2009 (P)	520	656

**Source: Central Bank of Barbados;  
Barbados Statistical Service;  
Working Group Estimate  
(P = Projected)**

The BHTA is also poised to launch "Staycations" designed to encourage Barbadians to spend part of their holidays in a local hotel. The industry is also considering a programme for training in the down time that could be available to employees in the event that the fall in the number of visitors were sharp enough to cause the industry to reduce working times. In the present circumstances of the industry a case has been made for relief from the increase in property taxes, for a review of the duties on a number of food and beverage items and for additional items to be included in the Second Schedule of the Tourism Development Act 2002-2007.

Specific measures to promote and link cruise and land based tourism include: the development of Barbados as a hub for southern Caribbean cruises; organization of the port facilities to accommodate cargo and passenger activity and improvement of shopping and entertainment activities for cruise passengers.

*International Business:* In the changing regulatory and enforcement environment promoting and growing the international business sector will be a major challenge. Nevertheless, the opportunities for economic growth through international business services should not be underestimated and should be supported by the requisite investment and promotional efforts, and by administrative improvements in the public sector. Following the G-20 meeting in Washington, Barbados is well placed to intensify cooperation with bodies such as the OECD and to enter tax information exchange agreements within a tax treaty framework and should spare no effort to maintain its identity as a treaty driven business destination. At the same time, however, it should be making every effort to diversify its products and services to take advantage of new business opportunities and meet emerging needs.

On the domestic front it is necessary to provide Invest Barbados with the resources to carry out its mandate; to implement the strategic plan developed in 2007 and revised in 2008; and to design specific responses to meet needs of specific companies, for example such as facilitating the timely receipt of work permits and registration documents. BIBA and the IBU working together should also urgently address the issue of providing adequate data on the contribution of the sector to economic activity, including linkages with tourism.

*Agriculture:* The spike in commodity prices at the beginning of the year focused attention on domestic food production and on the competition for alternative uses of land. Since Government has declared its intention to prevent the further alienation of agricultural land the first step in this direction is to reclaim unused agricultural land. The Ministry of Agriculture and the industry's other stakeholders should work together to diversify the products from sugarcane and other crops, to strengthen marketing arrangements for non-sugar crops, support the introduction of new technologies, develop new products, extend the range of byproducts from sugar and the scope of post harvest processing of other crops, and develop new and stronger linkages with manufacturing and tourism.

*Construction:* Projects financed by foreign direct investment have been the driving force of the construction sector for least a decade. The credit freeze in the international capital market and the collapse of financial institutions have caused financing to dry up and activity in the sector to slow down, with consequent loss of employment. In an effort to prevent further layoffs Government should accelerate the implementation of projects funded by the MDBs; support funding for affordable housing and where it is deemed appropriate, fund foreign exchange earning investments from domestic sources.

*Energy:* The escalation in the price of crude over the last 18-24 months brought into sharp focus the need for energy efficiency, conservation and development of viable renewable energy initiatives. Even though oil prices have fallen recently the emphasis on conservation strategies should be maintained as a matter of priority. To this end, Government should continue to advance the planning and execution of the energy efficiency, conservation and renewable energy initiatives being considered with relevant international financial institutions.

*Manufacturing:* Output and employment in the manufacturing sector in Barbados has gradually declined over the last decade. To reverse this trend and enhance international competitiveness the programme outlined in *The Industrial Policy for Barbados' Manufacturing and Related Services Sector 2007-2012* should be implemented. In addition a number of other initiatives by both the private sector and government will need to be introduced urgently. These include patent and copyright protection, establishment of a facility for equipment leasing and sharing, and certification and training to meet EU quality standards under the EPA.

*Small and Micro-Business:* Support for the small and micro-business sector should target the reduction of the costs of doing business, for example by reducing rents, a concern also of the manufacturing sector, and facilitating business or trade name registration. There should also be speedier access to the various funds and technical assistance schemes available to support the sector.

The proposals are summarized in the *Matrix of Actions and Expected Outcomes*, which also provides a timeframe within which the measures should either be initiated or completed. Steps have already been taken to implement some of the measures and by the first quarter of 2009 all of them, except the modification in the

unemployment benefits, should be initiated; some should be completed by mid-year and others will have a longer implementation period, as is indicated in the *Matrix*. Any modification in the unemployment benefits should be delayed until the second half of 2009.

As events unfold it will be necessary for Government and its social partners to continue to consult and agree on additional measures and policies, especially if conditions in the world economy turn out to be worse than currently expected.

**Matrix of Policies and Actions and Expected Outcomes**

Sector/Areas	Policies/Measures	Time Frame	Agencies	Risks	Expected Results
<b>General</b>					
Communication and Consultation	<ul style="list-style-type: none"> <li>Increase frequency of prime ministerial addresses to the nation.</li> <li>Increase frequency and efficacy of consultation with the social partners.</li> <li>Monthly consultations during 2009.</li> <li>Creation of a Council of Economic Advisors</li> </ul>	Immediate	<p>Prime Minister and Cabinet</p> <p>Prime Minister, Minister of Finance</p>	<ul style="list-style-type: none"> <li>Messages may conflict and confuse.</li> <li>Public may grow distrustful.</li> <li>Information may not keep up with circumstances.</li> <li>Policy changes may be viewed as lack of competence.</li> <li>Individuals or groups not on the Council may feel excluded and become disaffected.</li> </ul>	<ul style="list-style-type: none"> <li>Improved understanding of issues and challenges the country faces and the scope for action.</li> <li>Greater cooperation with all sectors of society.</li> <li>Timely advice and consultation.</li> </ul>
Social Partnership	<ul style="list-style-type: none"> <li>Increase frequency of consultation to monthly during 2009.</li> <li>Issue statement after consultation.</li> </ul>	Immediate	Government, CTUSAB, and BPSA	<ul style="list-style-type: none"> <li>Loss of interest and lack lustre participation.</li> </ul>	<ul style="list-style-type: none"> <li>Increased coordination between social partners.</li> <li>Timely discussion of current situation and policy responses.</li> <li>Reassurance of the public</li> <li>Monitoring of progress.</li> </ul>
Public Sector Reform	<ul style="list-style-type: none"> <li>Accelerate public sector reform and identify critical areas for the initial impetus (e.g. AG's Chambers, International Business Unit, Customs and BSS), making fullest use of latest ICT.</li> <li>Establish service standards.</li> <li>Institute periodic reviews of performance against standards.</li> </ul>	2009-2011	Ministry of Civil Service, Cabinet Office, Prime Minister's Office	<ul style="list-style-type: none"> <li>Lack of will to implement reforms.</li> <li>Resistance by special interest groups.</li> </ul>	<ul style="list-style-type: none"> <li>Improve efficiency and cost effectiveness in the delivery and of public goods and business facilitation.</li> <li>Prevent a slide in productivity and the social and economic gains in the country.</li> <li>Improved work ethic and commitment to professionalism.</li> </ul>

Sector/Areas	Policies/Measures	Time Frame	Agencies	Risks	Expected Results
Project Implementation and Management	<ul style="list-style-type: none"> <li>Revive and reconstitute the PPC or similar committee with authority to resolve all issues relating to project implementation.</li> <li>Strengthen capacity of line ministries to plan, execute and manage projects.</li> </ul>	January 2009  2009-11	Ministry of Finance and Economic Affairs  Training Administration Division	<ul style="list-style-type: none"> <li>Lack of will and commitment</li> </ul>	<ul style="list-style-type: none"> <li>Speed up project execution rate and draw down of project funds from MDBs.</li> <li>Effective resolution of inter-agency issues.</li> <li>Reduction of cost and time over runs.</li> </ul>
Citizen and visitor security	<ul style="list-style-type: none"> <li>Improve inter agency communication and coordination</li> <li>Improve quality and coverage of surveillance equipment</li> <li>Improve pedestrian facilities (e.g. lights and sidewalks)</li> </ul>	Immediate	AG, Police, BEMA and other emergency services, Ministry of Transport, Ministry of Tourism and other tourism stakeholders	<ul style="list-style-type: none"> <li>Stakeholder resistance</li> <li>Incompatibility of equipment</li> </ul>	<ul style="list-style-type: none"> <li>Prevention of spike in crime and anti-social behavior.</li> <li>Better coordination and communication between agencies responsible for citizen security and law and order.</li> <li>Improve pedestrian access to the city and to tourist facilities.</li> </ul>
Professional Services	<ul style="list-style-type: none"> <li>Introduction of service standards in private and public sector.</li> <li>Review fee setting in legal profession.</li> <li>Reform, simplify and speed up legal processes.</li> </ul>	Immediate	NISE, Bar Council and other Professional Associations	<ul style="list-style-type: none"> <li>Resistance by special interests</li> </ul>	<ul style="list-style-type: none"> <li>Quick turn around times</li> <li>Predictability of time and costs</li> <li>Improved business facilitation.</li> </ul>
<b>Macro-Economic Policy Measures</b>					
Fiscal Stimulus	A 1.0 to 1.5 percent fiscal stimulus (approximately \$80-120 million) funded mainly by drawing on loans from MDBs and directed to projects with high social, environmental and employment generating impact.	FY 2009-10	Ministry of Finance and Ministry of Economic Affairs	<ul style="list-style-type: none"> <li>Adverse impact on the balance of payments</li> <li>Revenue may not meet expectation</li> <li>Expenditure may exceed targets and become the new base going forward.</li> <li>Increase debt to GDP ratio that may threaten investment grade credit rating.</li> </ul>	<ul style="list-style-type: none"> <li>Maintain employment and social services.</li> <li>Improvements in infrastructure.</li> </ul>



Sector/Areas	Policies/Measures	Time Frame	Agencies	Risks	Expected Results
Social Safety Net	<ul style="list-style-type: none"> <li>• Increase unemployment benefits</li> <li>• Activate Training Fund for workers who are laid off or are on reduced hours.</li> </ul>	Mid FY2009-10	National Insurance Scheme (NIS) Employee and Employer organizations.	<ul style="list-style-type: none"> <li>• Numbers of unemployed too large to handle.</li> <li>• Rise of an entitlement culture</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced risk of crime and other forms of anti-social behaviour.</li> <li>• Maintain purchasing power of households.</li> </ul>
Tax Management and Administration	<ul style="list-style-type: none"> <li>• Consolidate tax management under central revenue authority.</li> <li>• Review tax policy and tax collection process to speed up refunds and reduce arrears.</li> <li>• Regular review of tax policy to ensure the tax system is up to date and responsive to changing circumstances.</li> </ul>	On-going	Ministry of Finance, Ministry of Economic Affairs, Tax Administration	<ul style="list-style-type: none"> <li>• Lack of will and administrative capacity.</li> <li>• Resistance by special interests.</li> </ul>	<ul style="list-style-type: none"> <li>• Speed up refunds due to the public and reduce arrears on tax collected.</li> <li>• Secure the integrity of revenue.</li> <li>• Avoid sharp rise in property tax payable.</li> <li>• Enhance business facilitation.</li> <li>• Establishment of new standards of service to the public.</li> </ul>
Monetary	Accommodating monetary policy stance while maintaining flexibility.	Immediate	Central Bank	<ul style="list-style-type: none"> <li>• May send unclear signal to economic agents, especially to consumers.</li> <li>• Effectiveness of measures will be influenced by the levels of liquidity in the system.</li> </ul>	Support fiscal measures to keep economy in balance.
Reserve Management	<ul style="list-style-type: none"> <li>• Tap the liquidity support facilities of IFIs.</li> <li>• In 2009 begin to test the feasibility of going to the market in 2010.</li> </ul>	By June 2009	Ministry of Finance, Central Bank	<ul style="list-style-type: none"> <li>• Temptation to spend resources.</li> <li>• High carrying cost of resources.</li> <li>• Rise in debt to GDP ratio by 2 to 3 percentage points.</li> <li>• Living on borrowed rather than earned international reserves.</li> </ul>	Additional US\$200-\$400 million in available foreign exchange.
Financial Sector Regulation	<ul style="list-style-type: none"> <li>• Consolidate regulators of non-bank financial institutions.</li> <li>• Introduce reserve requirements for deposit taking non-bank financial institutions.</li> </ul>	By June 2009 By June 2009	Ministry of Finance, Central Bank Ministry of Finance, Central Bank	<ul style="list-style-type: none"> <li>• Resistance by special interests.</li> <li>• Migration to the least regulated institutions.</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthening of regulatory framework.</li> <li>• Greater coordination in regulating institutions.</li> <li>• Higher level of protection for the public and greater confidence in the institutions.</li> </ul>

Sector/Areas	Policies/Measures	Time Frame	Agencies	Risks	Expected Results
Wages and incomes	<ul style="list-style-type: none"> <li>Relate wage settlements to productivity and ability to pay.</li> <li>Develop sector specific measurements of productivity and ability to pay.</li> <li>Dividend payments and profit sharing schemes related to ability to pay.</li> <li>Remove impediments to 24-hour workday.</li> </ul>	2009 and onward	CTUSAB, BEC, National Productivity Council (NPC), Ministry of Labour, Ministry of the Civil Service	<ul style="list-style-type: none"> <li>Failure to agree on measurement of productivity.</li> <li>Failure to disclose information relevant to determining ability to pay.</li> </ul>	<ul style="list-style-type: none"> <li>Moderate potential loss of employment.</li> <li>Moderate internal inflationary pressures.</li> <li>Help maintain competitiveness of the economy.</li> </ul>
<b>Sectoral Measures</b>					
Tourism Long-stay Visitors	<ul style="list-style-type: none"> <li>Defend airlift.</li> <li>Increase investment, especially in plant renewal</li> <li>Provide incentives for distributors.</li> <li>Renew, intensify and re-define promotional programmes, including targeting meetings, incentives, conferences and events (MICE)</li> <li>Target non-traditional markets.</li> <li>Expand tourism product by, among others, promoting heritage tourism, promoting Barbados as a fly-stay-cruise hub and health and wellness centre.</li> <li>Launch "Staycations" programme of the BHTA</li> <li>Arrange training for workers whose working time may be reduced because of fewer visitors.</li> </ul>	<p>On-going On-going and medium to long term (2010 and beyond)</p> <p>December 2008</p>	<p>Ministry of Tourism, BTA, BHTA, NIS</p> <p>Ministry of Tourism, BTA, BHTA, NIS</p>	<ul style="list-style-type: none"> <li>Availability of adequate funding</li> <li>Downturn in the source countries steeper and more prolonged than expected.</li> <li>Further cuts in long haul airlift triggered by fall in demand and fiscal measures in source countries.</li> <li>May miss current opportunities where they exist.</li> <li>Markets adversely affected by global economic downturn.</li> <li>Barbadians may prefer to stay at home.</li> </ul>	<ul style="list-style-type: none"> <li>Limit fall in long stay visitors to between 2% and 5%</li> <li>Maintain current levels of employment in hotels.</li> <li>Diversification of source countries.</li> <li>Diversification of tourist product.</li> <li>Improvement in hotel plant and ancillary facilities.</li> </ul>

Sector/Areas	Policies/Measures	Time Frame	Agencies	Risks	Expected Results
Cruise tourism	<ul style="list-style-type: none"> <li>Develop Barbados as a hub for southern Caribbean cruises</li> <li>Organise port facilities to accommodate cargo and passenger activity.</li> <li>Improve shopping and entertainment activities for cruise passengers</li> </ul>	2008-11	BTA, MOT, Port Authority, BTA, MOT, Port Authority and Private sector	<ul style="list-style-type: none"> <li>Compatibility of cargo and tourism activities in port</li> <li>Fuel prices</li> </ul>	<ul style="list-style-type: none"> <li>Expectation of higher port usage and growth of subsidiary activities e.g. ship chandlery.</li> <li>Greater synergy between land based and cruise tourism.</li> </ul>
International Business Services	<ul style="list-style-type: none"> <li>Support diversification and expansion of markets, products and services.</li> <li>Design and market specific products for selected clients.</li> <li>Provide Invest Barbados with resources to match its mandate.</li> <li>Implement strategic plan developed in 2007 and revised in 2008.</li> <li>Expand tax and investment treaty network.</li> <li>Intensify cooperation with OECD on tax information exchange within a tax treaty.</li> <li>Design specific responses to meet needs of specific companies.</li> </ul>	<p>On-going</p> <p>On-going</p> <p>Immediate</p>	Invest Barbados, International Business Unit, Ministry of Foreign Affairs, Barbados International Business Association (BIBA)	<ul style="list-style-type: none"> <li>Shortage of suitably trained and skilled individuals.</li> <li>Non-cooperation between domestic agencies.</li> <li>Resurgence of OECD efforts to curb so-called harmful tax competition.</li> <li>Lack of clarity on the role of Invest Barbados</li> <li>Emerging regulatory environment in financial services industry.</li> <li>Lack of data and market knowledge.</li> </ul>	<ul style="list-style-type: none"> <li>Preservation of integrity and reputation of Barbados as the jurisdiction of choice for international business.</li> <li>Positioned to capture business that is recession proof.</li> <li>Positioned to capitalize on post recession resurgence of business.</li> <li>Development of products to meet the needs of the new environment.</li> <li>Improved business facilitation.</li> <li>Market diversification.</li> </ul>
Agriculture	<ul style="list-style-type: none"> <li>Reclaim unused agricultural land</li> <li>Strengthen marketing arrangements.</li> <li>Support the introduction of new technologies.</li> <li>Intensify efforts against praedial larceny.</li> <li>Support product development and post harvest processing.</li> </ul>	Immediate	MA, BADMC, BAMC, BAS and Farming Community Police	<ul style="list-style-type: none"> <li>Marketing funds may be difficult to use.</li> <li>Shortage of labour.</li> <li>Further alienation of land from agriculture.</li> <li>Unmanaged gluts and shortages.</li> <li>Shortages of manpower.</li> </ul>	<ul style="list-style-type: none"> <li>Increased domestic food production.</li> <li>Strengthening of linkages with tourism and the supermarkets</li> </ul>

Sector/Areas	Policies/Measures	Time Frame	Agencies	Risks	Expected Results
Construction	<ul style="list-style-type: none"> <li>Accelerate implementation MDB funded public sector projects</li> <li>Extend incentives for private sector funded affordable housing.</li> <li>Where appropriate, fund foreign exchange earning investments from domestic sources.</li> </ul>	2009-10	Ministry of Finance, Ministry of Economic Affairs, Ministry of Housing, Private construction companies	<ul style="list-style-type: none"> <li>Failure of project implementation and management at central and line ministries level</li> <li>Pressure on foreign reserves if reimbursement is not timely.</li> <li>Failure of demand to respond.</li> </ul>	<ul style="list-style-type: none"> <li>Maintenance of employment</li> <li>Reduction of commitment fees</li> <li>Meeting a social need</li> </ul>
Energy	<ul style="list-style-type: none"> <li>Maintain emphasis on conservation and use of alternatives to fossil fuels.</li> <li>Provide incentives to enterprises and households to use alternatives to fossil fuels.</li> <li>Energy pricing policy to reflect trend in oil prices.</li> <li>Implement energy labeling standards for all appliances and equipment imported to the island.</li> </ul>	Immediate	Ministry of Finance, Investment and Energy	Efforts may be abandoned as oil prices fall	<ul style="list-style-type: none"> <li>Reduce energy consumption to output ratio.</li> <li>Foreign exchange savings.</li> <li>Reduced emission of green house gasses.</li> </ul>
Manufacturing	<ul style="list-style-type: none"> <li>Patent and copyright protection.</li> <li>Establish an equipment leasing and sharing facility.</li> <li>Certification and training to meet EU quality standards.</li> <li>Implement 5 year sector plan (2007-2012).</li> </ul>	Immediate	CAIPO, BIDC  Private Sector  BNSI  BMA	<ul style="list-style-type: none"> <li>Lack of will</li> <li>Lack of economies of scale</li> <li>Unavailability of transport</li> </ul>	Revitalization of sector with expansion in exports and employment.
Small and Micro Business	<ul style="list-style-type: none"> <li>Reduction in rents</li> <li>Speedier access to funds and technical assistance</li> <li>Encourage business registration</li> </ul>	Immediate	BIDC, CAIPO UDC, RDC, Fund Access, Enterprise Growth Fund	<ul style="list-style-type: none"> <li>Financial resources and covenants of BIDC</li> <li>Size of available loans and cost of administration</li> <li>Permanence of the business</li> </ul>	Increase in exports, sustainability of businesses and growth in employment.