



Barbados Country Highlighted

4 September 2019

Welcome to the first edition of our quarterly country reports on Barbados: an information brief which aims to keep our clients abreast of what is happening in Barbados

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Overview

This edition looks at the progress of the Barbados Government's economic and legal reforms with a focus on those events affecting the country at the business, international, political, institutional and societal levels. It also provides an assessment of the stability of the financial system.

The measures under the Barbados Economic Recovery and Transformation programme (BERT) taken thus far have gained positive feedback from international lending, regulatory and rating agencies. However, several key reforms and investment projects yet to be implemented, are expected to assist with continued economic recovery.

Meanwhile, the country is dealing with an increasing trend in gun-related crimes which could potentially undermine Government's efforts to foster an environment conducive to foreign investment and visitors. In spite of this challenge the upgrade to Barbados' credit rating is expected to boost investor confidence.

Business environment

Business environment

Business facilitation



Obtaining construction permits

The process of obtaining construction permits is expected to be streamlined with the implementation of a new Town and Country Planning Law.

Property owners or developers whose building operations involve making any material change in the use of any buildings are initially required to obtain a construction permit from the Town & Country Development Planning Office.

Business environment

Business facilitation

No-Brexit deal has created uncertainty

Leadership in the UK Government is pushing towards a no-Brexit deal which could see the UK leaving the European Union (EU) with no agreement about the separation process. In addition to the no-Brexit deal, the UK economy contracted in the second quarter of 2019 which has fueled uncertainty surrounding the value of the pound. The currency was reported to have fallen to a ten year low in July 2019.

As a result, the tourism industry is likely to be adversely affected as a devaluation to the sterling means that UK visitors to Barbados will have to pay more for Barbados goods and services. This could deter UK visitor arrivals and expenditure.

From a UK perspective, a no-Brexit deal may have a negative effect on investor and business activity. It is anticipated that some UK investors and companies will take the necessary measures to build and safeguard their wealth and assets by shifting their resources and operations outside of the UK to international business centers such as Barbados.

Potential investment opportunities in Guyana is on the agenda

The Ministry of Foreign Affairs and Trade recently held a workshop on “Exploring Potential Investment and Trading Opportunities in Guyana” targeting local business persons interested in opportunities in Guyana.

Recent reports from the International Monetary Fund (IMF) indicated that the Guyana economy grew in 2018 by 4.1% with a broad-based expansion across all major sectors. Guyana’s economy is primed for further growth as major oil extractions in 2020 are projected to bring double-digit growth in the coming years.

Business environment

Business facilitation

Amendments to the Economic Substance Act

The proposed amendments to the Business Companies (Economic Substance) Act have undergone review by The Organization for Economic Co-operation and Development (OECD), and negotiations on these amendments were held with the European Union (EU). As a result, the relevant amended acts including that on substance, have been approved by the OECD.

The Business Companies (Economic Substance) Act, 2018-41, passed in Barbados on 14 December 2018, has introduced increased substance requirements for Barbados resident entities effective 1 January 2019.

The criteria include that management and control must be undertaken in Barbados, along with the entity's core income generating activities.



Business environment

Business facilitation

Private-sector investments in green energy

Williams Industries Inc. a Barbados-based, diversified Caribbean group of companies, is heavily invested in green energy through its subsidiaries Williams Caribbean Capital (WCC) and Williams Electrical Limited (WEL).

The Climate Bond Standard Board approved the certification of WCC's green energy bonds, as consistent with addressing the two degrees Celsius warming limit in the Paris Agreement. With this approval, WCC has become part of the USD 67.6 billion of bonds issued globally to have achieved this feat.

This scheme is utilised by governments, investors, bond issuers and the financial markets to prioritise investments which contribute to addressing climate change.

Hotel concessions are undergoing review

At the annual general meeting of the Barbados Hotel and Tourism Association (BHTA), it was indicated that hotel officials were experiencing ongoing challenges in accessing concessions under the Tourism Development Act (TDA).

These included the slow pace of Customs clearance for exempt items and cumbersome administration. Hotels have also been subject to increased taxation in terms of the VAT and room rate levies, while having to cope with competition in the international tourism arena against the likes of rival tourism destinations such as Jamaica and The Bahamas.

Social impact

Social impact



Public Transportation

The cost of public transportation remained at BBD 2 since early 2011 up to March 2019. However, Government had indicated that it will no longer maintain the fare as the cost of subsidizing the Barbados Transport Board was unsustainable. Effective 1 April 2019, bus fares were increased from BBD 2 to BBD 3.

The increase in bus fares can potentially reduce the spending power of some individuals thereby putting further constraints on the economy's ability to grow. Increases to the minimum wage and the provision of income tax credits for lower income workers are expected to offset the hike in bus fares to some degree. The Ministry of Transport & Works of Barbados oversees the public transport system, divided between state owned and privately-owned vehicles.

Many working -class (mostly low to medium income workers) are heavily reliant on public transport, to and from work.



Crime

The unprecedented level of gun violence in the first half of the year has been an expressed concern of several high officials, tourists and residents.

Barbados recorded 30 murders in the first six months of 2019, surpassing the 28 recorded in a full year in 2018. A number of crime prevention initiatives were implemented to combat rising violence. Notably, the Government amended the Bail Act to offer a one-week gun amnesty from 7-13 April 2019 for persons to surrender illegal guns, ammunition and firearm parts to any police station without prosecution.

A reported 32 firearms were turned in during the amnesty. In April 2019, a bill was also presented to the Senate to restrict bail being granted to people on remand for serious offences like murder.

Social impact



Educational reform

Government has indicated its intention to introduce a middle school as a replacement to the common entrance examination. In Barbados children who are eleven years old, currently write an examination to gain entry to a secondary school based on the grade awarded. The common entrance exam is expected to be abolished and replaced with middle schools thereby giving students the chance to decide what school they want to go to at 13 or 14, instead of 10 and 11. The current educational system in Barbados is closely aligned with British norms, and free to all Barbadian nationals from primary to tertiary levels at the expense of the government. Any plans to introduce middle schools to the education system will necessitate reforms to the existing primary and secondary education institutions. These reforms may include a reduction in the number of forms at these institutions. It is also possible that some restrictions will be placed on the available selection of secondary schools from which students are able to choose. In the absence of any restrictive selection criteria, such as a district zoning system, an excess number of students may opt to attend a select few schools with limited capacity.



Water supply network

The island has been experiencing water scarcity issues while having to cope with an ageing infrastructure, water wastage and little rainfall. The BWA has responded with a program to repair leaks, investigate potential illegal connections, install efficient meters and a scheme for households to purchase water tanks. The Water Authority emphasized that a long-term strategic plan is required for effective and efficient harvesting of water and conservation.

Political and institutional

Political and institutional

New political party

The People's Party for Democracy and Development is the newest political party to join the political realm. The party is led by Opposition Leader Bishop Joseph Atherley, who won his seat as a Barbados Labour Party candidate in the last elections. Mr Atherley presented several party members, including new senators.

Renewable energy projects, an increasing priority

The vulnerability of Barbados and other Caribbean territories to natural disasters has become more evident particularly with the devastations caused by Hurricanes Irma and Maria in 2017 which has led to an increased focus on efforts to combat climate change across the region. In addition, higher energy prices are expected to be driven by the discontinuation of the Petrocaribe deal. In light of these developments, the Caribbean's renewable energy sector is inclined to expand and given the region's abundant sunlight, solar energy is an easily accessible source of renewable energy.

In March 2019, the Abu Dhabi Fund for Development (ADFD) inaugurated three projects in the Caribbean: with a total investment of USD 50m for solar projects in the Bahamas, Barbados, and Saint Vincent and the Grenadines (with an installed capacity of 2.35MW in total). The proposed structures will be built to withstand hurricanes winds of up to 160 miles per hour. Existing solar projects in the region are serving multiple purposes: to generate electricity, to serve as carports of parking places and as fast-charging stations for electric vehicles.

Medical Marijuana Industry

Prospects are hopeful for the establishment of a medical marijuana industry in Barbados. The Prime Minister has revealed that Barbados is positioning itself to reap rewards from the growing medical marijuana industry through partnerships with a number of Canadian firms. The Medicinal Cannabis Bill was laid parliament and is expected to be debated on 30 August 2019.

Political and institutional

Red Tape, the challenges of doing business

Red tape and long public service processes are highlighted as important factors behind Barbados' rank of 129th out of 190 countries on the World Bank's 2019 Doing Business Indicators.

The private sector also reports continued challenges with respect to getting credit (Barbados ranked 144th), protecting minority investors (168th), enforcing contracts (170th), and dealing with construction permits (154th).

To address some of these issues, the government is preparing a public-sector modernization project with the Inter-American Development Bank. Timely approval and execution of this project would be an important step towards addressing the abovementioned issues.



Political and institutional

Digitisation of the public sector

The Ministry of Innovation Science and Technology identified seven departments which will be the first to undergo the digitisation due to their high volume of activity and public demand for improved quality and speed of delivery of public services.

These agencies include: the Immigration Department; civil registry and courts; the Police Department; the international business division; customs and excise Department; town and country planning office; and the Barbados Licensing Authority.

Through digitisation of these departments, it is the intention of Government to facilitate a wide-range of activities and services online.

Financial system stability

Financial system stability

Inflation

Stabilization of prices is needed to support a business climate that is more favourable to sound economic activity and job creation. Consumer prices increased by 2% for the first half of 2019, a reduction in the rate of increase when compared to the 5.3% rise recorded in the same period for 2018. Meantime, unemployment levels showed a very slight improvement with a 10% rate in the first quarter of 2019, down from 10.1% in 2018. These are two indicators that we will be closely monitoring over the last quarters.

International foreign reserves have recovered

International foreign Reserves continue to improve, but at the same time the unsettled negotiations on the external debt due in foreign currency remains a concern. Gross international reserves increased by BBD 204 million to BBD 1,200 million, the highest it has reached since 2015.

This improvement was primarily supported by financing from international financial institutions since BERT (Barbados Economic Recovery and Transformation Programme). Additionally, the suspension of external debt payments in the first half of 2018 would have eased the downward pressure on international reserves.

We are still keenly awaiting word on the external debt restructuring (foreign currency debt) which is yet to be completed as Barbados needs to not only preserve the stability of the foreign reserve standing, but also continue to improve its international credit risk profile.

A major challenge for developing countries such as Barbados is finding capital to stimulate growth and development. Foreign investor perceptions will also be a determining factor of the country's ability to attract the necessary foreign investment which has the potential to expand economic activity.

Financial system stability

Barbados on track to economic recovery

The Government has set out to reduce the debt stock to 60% of GDP by 2033 and achieve a fiscal surplus of 6%. Estimates from the Central Bank of Barbados indicate that the country is on track to achieving this target.

Public-sector debt fell to 124.2% of GDP in the first half of 2019 from 156.7% of GDP in 2018. Public sector reforms, the suspensions of payments on external debt and the completion of the domestic debt restructuring were the main contributors to the improvement.

Sovereign credit rating has improved

Barbados' foreign and local currency issuer ratings has been upgraded to Caa1 from Caa3. This reflects Barbados' fiscal and debt standing, and reduced vulnerability to event risk. As their basis for upgrading Barbados, the rating agency also expects that the on-going fiscal and structural adjustment will continue to place government debt on a downward trajectory.

In addition, the unresolved external debt restructuring was the rationale for maintaining the Caa3 rating on outstanding foreign currency bonds.



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