

The 2014 guide to

# BARBADOS

- > An underrated sovereign with a low-tax, business-friendly investment climate
- > Robust economic fundamentals, aided by high economic and political stability
- > The region's best hard and soft infrastructure, from telecoms to education
- > A world-class white-collar workforce supporting a booming business-services sector



## EUROMONEY

March 2014



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## Infrastructure, efficiency, stability

Barbados remains a paragon of stability offering solid growth prospects, a stable low-tax regime and a business-friendly environment

For hundreds of years, Barbados has been a pillar of stability in an often turbulent region. Since independence nearly half a century ago, its leaders have worked hard to turn Barbados into an investors' paradise. The island is economically and politically stable, boasting strict adherence to the rule of law, allied with super-low rates of taxation, corruption and crime.

This is a golden island fit to adorn any postcard, but it's also a working democracy, populated by highly educated white- and blue-collar workers, and overseen by judicious regulators and the world's third-oldest working parliament. Moreover, the Barbadian business model, based on financial transparency and a low-tax environment acceptable to corporates, investors and regulators across the developed and developing world, is one that clearly works.

Throughout the financial crisis, and the turmoil unsettling many emerging markets across the globe, which includes several Caribbean islands, Barbados has remained a paragon of stability offering solid growth prospects, a stable low-tax regime and a consistently business-friendly environment.

### Sense of purpose

Barbados hums with a sense of purpose

and drive, evident as soon as you land at Grantley Adams International Airport, one of the region's busiest terminals, and the recent recipient of a \$100 million upgrade. Flights call in every day, most arriving direct from London, New York, Miami and Toronto, but also increasingly from Latin America and continental Europe, as Barbados looks to sign double-taxation and bilateral investment treaties with nations from China to Croatia and Singapore to Switzerland.

From the airport to the bright sunlight outside, and to the next pleasant surprise: infrastructure. Barbados's roads are excellent, notably the multi-lane highway linking the airport in the southeast with Bridgetown in the west, and the new housing developments and business districts of the island's central and northern reaches. Traffic slows in rush hour but never jams, further indicators of a healthy, working economy.

Barbados's infrastructure, says Jeremy Stephens, president of the Barbados Economic Society, is "the best anywhere in the Caribbean, and far better than any of the region's other small island states". The telecommunications grid rarely falters: wireless speeds are universally high, even out on the remote eastern coastline, and 4G mobile services are provided by a select group of mobile providers, notably Digicel and LIME. Utilities are another high point:

Barbados rarely if ever suffers energy brownouts, while tap water is as potable as it is in any European city.

"We have world-class physical and social infrastructure, and thanks to our first-class telecommunications system, we are superbly well connected both domestically and with the wider world," says DeLisle Worrell, governor of the Central Bank of Barbados. "These are hard-won and clear advantages that have given us the opportunity to build out the Barbados brand, and which provide solid economic foundations that we continue to invest in and build on."

All of this sweat, toil and investment feeds into a brace of interlinked and aspirational factors. First, the betterment of the Barbadian people. And second, the twin sectors that have successfully provided impetus, direction and focus to the economy since independence from Britain in 1966: tourism, and a wide range of world-class business and financial services.

### Investing in the future

In December 2013, Euromoney Country Risk (ECR) data gave Barbados a structural risk score of 54, far above any other nation in the eastern or central Caribbean, and nearly seven full points ahead of near-neighbour Trinidad. That Barbados was able to outshine a far larger economy blessed with significant natural resources is testament to its leaders, past and present, and to its willingness to invest in its people and in its future.

Euromoney's structural risk rankings comprise four factors, each debated by a pool of respected global economists and financial sector leaders: hard and soft

infrastructure, demographics and labour relations. Barbados excels in every metric.

Its hard and soft infrastructure is excellent, of course. But it also boasts a young, aspirational, hard-working population, and a labour-relations system based on stability and consensus that would put to shame many European and North American states. The government is in regular contact with other key pillars of the economy. Decisions to raise or lower interest rates, push through business-friendly legislation or slim down and streamline government – such as the February 2014 decision to dismiss 300 employees of the National Housing Corporation, a brave but necessary move toward a balanced budget – are only taken after extensive communication with business leaders and trades unions. Strikes are almost unheard of, in contrast to other parts of the Caribbean.

### Oasis of stability

Indeed, in a world riven by poor industrial relations, political upheaval and market turmoil, the low-tax, low-corruption and pro-business island of Barbados has for decades remained an oasis of stability. "Anyone doing business here knows they won't be hit one day by a new piece of tax legislation, and can rest easy in the

### Political risk ranking (Caribbean)

Ranking	Country	Score
1	Bahamas	64.1
<b>2</b>	<b>Barbados</b>	<b>59.7</b>
3	Trinidad & Tobago	54.2
4	Dominica	50.1
5	St Lucia	49.5
6	Grenada	48.8
7	St Vincent & Grenadines	48.4
8	Jamaica	43.6
9	Dominican Republic	40.0
10	Antigua & Barbuda	35.5

Source: Euromoney Country Risk (Dec 2013)

knowledge that the ruling party will not be suddenly ousted,” says Glyne Harrison, chief executive officer (CEO) of First Citizens Bank (Barbados), a leading pan-regional lender. “There is a very strong link between the legal, political, social and corporate communities here, and these close-knit bonds play a big part in explaining why companies and investors invest here and stay here.”

What also stands out is the island’s world-class level of soft infrastructure. Unlike many economies, either developed or developing, Barbados invests heavily in its own people, for reasons that are best explained by Sir Trevor Carmichael, chairman of Bridgetown-based Chancery Chambers, and one of the leading legal minds in Barbados – and the West Indies.

“From the first day of independence, we recognized that we were a small jurisdiction with limited natural resources, so we always focused on developing our human capital and the rule of law,” says Carmichael. He motions out of the window of his offices in central Bridgetown, filled with antique paintings of bygone Caribbean days, to the handsome brick building opposite. Barbados’s parliament turns 375 this year and Sir Trevor, one of 21 senators

#### Regulatory and policy environment

Ranking	Country	Score
1	<b>Barbados</b>	<b>6</b>
2	Bahamas	5.6
3	Trinidad & Tobago	5.2
4	Dominica	5
5	St Lucia	4.7
6	St Vincent & Grenadines	4.6
7	Grenada	4.3
8	Jamaica	4.2
9	Dominican Republic	3.4
10	Antigua & Barbuda	3.2

Source: Euromoney Country Risk (Dec 2013)

in the upper house, will have a front-row seat for the celebrations.

This determination to invest sustainably in its people and its economy has long proven a success. Barbados has one the Caribbean’s best education systems, along with Trinidad, and by far its best healthcare service. Free schooling is provided to all citizens up to the age of 16 – around one-fifth of the entire budget is allotted to education – and an outsized measure of the population goes on to gain bachelors and masters degrees, as well as doctorates.

“It’s not unusual to meet people with first and second degrees here,” says First Citizen Bank’s Harrison. “Education is taken very seriously in Barbados. You know that’s true when you see wealthy foreigners sending their kids to local schools – it’s rare to see children sent to boarding schools in the US, Britain or Canada.”

You can see this drive for personal advancement at every level. Marlon Yarde, chief executive officer and general manager of the Barbados Stock Exchange recently finished his Master of Letters degree via an online course with the UK’s University of Huddersfield. Central bank chief Worrell holds degrees in economics from the University of the West Indies and Canada’s McGill University, and research fellowships at the Smithsonian Institution and the Federal Reserve Board in Washington.

This striving for personal improvement, aided by a government that regularly pays full scholarships to individuals seeking to pursue higher education overseas, pays clear dividends. Rarely, notes Connie Smith, managing director at Tricor Caribbean, a global provider of integrated business, corporate and investor services ultimately

owned by Hong Kong-based Bank of East Asia, does she need to look beyond the island to find highly-qualified accountants, auditors, lawyers or tax advisors.

#### Quality of life

Smith points to positive factors beyond roads, reading and arithmetic. “Barbados offers an unusual combination of a high quality of life and a high level of infrastructure that’s always being enhanced and improved. The year is crammed with great sporting and cultural events. A high level of political stability, a large middle-class and our super-low crime rates also make this a very safe place to raise your family.” Adds Henderson B Holmes, executive director at the Barbados International Business Association: “Our lifestyle makes this a great place to invest. Everyone wants to invest in a safe place, but you also want to travel and live somewhere you feel safe. Barbados provides both.

Adds the BSE’s Yarde: “What people consider when they do business here isn’t just the tax rate, but the overall business and social climate. Our crime rates are miniscule compared to Jamaica or Trinidad. Why? Because Barbadians are good at accepting people. Barbados has a very big middle class and in other countries across the region, you are either very rich or very poor. A big middle class helps to create stability – you don’t want to destroy what you have built up.”

Moreover, this middle class works across a burgeoning service sector, from tourism and transport to providing cost-efficient, world-class business, accounting and taxation advice to global corporates and investors.

#### Golden island

These clear advantages also increasingly

#### Government stability rankings

Ranking	Country	Score
1	Bahamas	6.9
<b>2</b>	<b>Barbados</b>	<b>6.6</b>
3	Trinidad & Tobago	6.2
4	Grenada	6.2
5	St Vincent & Grenadines	5.9
6	Dominica	5.7
7	St Lucia	5.7
8	Dominican Republic	4.8
9	Antigua & Barbuda	4.7
10	Jamaica	3.4

Source: Euromoney Country Risk (Dec 2013)

draw in best-in-class workers from outside the country, particularly those with young families or nearing retirement age, drawn to the island’s wealth, security and stability. Dustin Delany, managing partner at Delany Finisterre, a Barbados-based international law firm, describes the clear advantages of being based on such a golden island. He moved from Brickell Avenue in downtown Miami five years ago and has never looked back.

“Time-zone wise,” he notes, “it’s ideally situated for anyone based in North and South America and much of Europe. It’s a great place to raise a family, with a literacy rate of 99% and students who regularly make their way into the world’s top colleges. And I get to see my son grow up rather than spending two hours every day on weekdays gridlocked on the I-95 freeway in south Florida.”

Delaney’s story helps explain why so many investors, business leaders and tourists continue to flock to this gleaming gem of an island, blessed with world-class governance, political, social and economic stability, regional best-in-class hard and soft infrastructure, and with impeccable financial, communication and transport links to the outside world.

## Renewed sense of purpose

Central bank governor DeLisle Worrell explains how Barbados has managed to emerge from the global financial crisis stronger and economically more diverse

It's hard to miss DeLisle Worrell when he enters a room. The governor of the Central Bank of Barbados (CBB) is a striking but calming presence – exactly what is needed in a small but stable island economy emerging with a new sense of purpose after a few relatively lean years. His chosen attire, which includes a perfectly ironed Nehru-style shirt, points to his humility; his broad, knowing grin to a charm that sets visitors immediately at ease.

His cool demeanour hides the fact that it has been a tough few years for probably the region's most diverse and well-run island state. Barbados has been here before, knocked back several times by recessions, notably in the early 1990s. But the recent financial crisis felt different: Barbados hit its low point in 2009, as the two industries that buttress its economy, tourism and international business and financial services, both took a pounding.

That Barbados has been able to emerge from the shadows stronger and more economically diverse, while retaining the political, structural and social stability that define it in the eyes of the investing world, is testament to the resolve of the Barbadian people. It also points to

the extraordinary determination and intellectual elasticity of the island's leading financial and political figures, including Worrell, who has led the CBB since November 2009.

He previously worked as deputy governor between 1990 and 1998, before joining first the International Monetary Fund, where he served as an advisor in the Monetary and Exchange Affairs Department, then the Caribbean Centre for Money and Finance. Since rejoining the central bank as governor, he has helped stabilize the economy following the dark days of the financial crisis.

The economy has posted modest growth figures since 2009. Worrell has succeeded in keeping prices low and the debt burden manageable, while shoring up foreign exchange reserves and boosting revenues in sectors from transport and distribution to financial services to agriculture – no small feat for a small, natural resource-poor island economy.

### Product sells itself

Worrell clearly enjoys his life and his job. Asked whether he is an optimist or a pessimist about the future of the Barbadian economy, he smiles and spreads his hands wide. "I'm cautiously

optimistic," he says. "I'm a big believer in the product selling itself. Look around you. We're blessed with our physical environment, with our beaches, with all the great things that make living and working here wonderful. We have a strategy that works for us – we have built on our reputation and our competitive strengths. And we have excellent physical and social infrastructure – great roads, telecoms services and utilities, along with the best education and healthcare systems in the region."

And rather than panic at the height of the financial crisis, the island's political, social and business leaders did what they've done since independence in 1966: they sat down very calmly, took a deep collective breath and, recognizing the changing nature of the world, mapped out a new future.

At first glance and in many ways this future looks remarkably like the past. Barbados's economy remains heavily dependent on the twin engines of tourism and international business services, two sectors that often intersect. The island is home to hundreds of global institutional investors and corporations, all looking for ways to minimize their tax spend (and finding them) thanks to the island's double-taxation agreements with 33 nations, including the United States and stretching from Canada to China, Sweden to Switzerland, and Britain to Bahrain.

Directors of these firms and funds flock here throughout the year, but most notably in the winter months, to hold board meetings, to talk to their lawyers, accountants, auditors and business partners, to check up on their savings



Dr. DeLisle Worrell, Governor,  
Central Bank of Barbados

plans, and to channel capital parked profitably in Barbados into new local, regional and global investments and jurisdictions.

More often than not, they bring their wives, husbands and families along for the ride, to enjoy a spot of rest, recreation and respite from chilly North American and European winters. "There's a big overlap between international business and tourism," notes Worrell. "A lot of people who come here also live here, boast a significant investment portfolio on the island and often own second homes."

And renewed moves are afoot to boost the number of business and leisure visitors, with the central bank just one of many government departments and agencies seeking to squeeze greater returns out of an industry vital to the

“We have a strategy that works for us – we have built on our reputation and our competitive strengths”

island's future. “The keys to boosting revenues in the tourism sector are increased productivity, improved quality of service and enrichment of the product,” says Worrell.

#### Targeting the message

This also means marketing Barbados more efficiently, targeting its message to the right leisure and corporate traveller. Thus, rather than flooding foreign TV networks or advertising hoardings with entreaties to visit the island, authorities are focusing their attentions on wealthier areas of North America, Britain and, increasingly, East Asia and Latin America.

And tourism isn't just about beaches and bars. Barbados is a sun-seekers' paradise for sure, but it's also an increasingly varied holiday destination. Worrell points to the development of new corners of the industry, notably sports, cultural and heritage tourism. The compact nature of the island and the diversity of activities make Barbados an extraordinarily fulfilling and rewarding place to visit or live. In theory, you can swim or surf in the morning, put in a full day's work, then play polo or relax with the family before rounding off proceedings with dinner at a world-class restaurant.

It's this stunning variety and quality of life that makes Barbados doubly amenable to investors, corporate executives and central bank governors alike. Worrell clearly loves his homeland as well as his work. He works long hours but takes time out to reflect, think and ponder before making decisions. Evenings are spent with his wife, often taking long strolls in the clear, warm air. He contributes often to the central bank's analysis, and to research and papers co-written with leading regional and global financial legislators and thinkers.

#### Staying ahead of the neighbours

All of these positive economic factors, built up assiduously over the past half-century ensure that Barbados remains one step removed from its regional peers. Despite the rigours of recent years, leading institutions, notably the central bank, kept the island's spending in check during the financial crisis, trimming its budget where necessary and taking stringent measures to keep its foreign exchange reserves well-stocked.

Barbados's robust and enduring institutions meanwhile maintain social and economic order. It's hardly a surprise that the economy rated so highly in the latest Euromoney Country Risk rankings, compiled in December 2013. They show Barbados leading the region in terms of its regulatory and policy environment, and second out of 13 nations on the key issues of corruption, government stability, debt indicators, and political and institutional risk.

#### Long-term growth plan

Going forward, the central bank chief identifies a two-pronged plan to achieve long-term sustainable growth. The first

stems from a clear desire to boost both economic growth and tax revenues by diversifying and adding value to key areas of the economy, primarily tourism and international business services, but also agribusiness and rising sectors like trans-shipment services, information technology, software application development and even film production.

The second is perhaps more painful, but just as necessary and effective: slimming down government, making it more efficient in a drive to provide the best possible support to investors and taxpayers. “There is an ongoing drive toward greater efficiency in the public sector,” says Worrell. “We recognize the challenge of increasing productivity in the public sector, and the importance of engaging with the International Monetary Fund [IMF], the Inter-American Development Bank [IDB] and others to build our institutional capabilities.”

Barbados's economic leaders have been true to their word. In February 2014, the government laid off half of the 3,000 temporary public-sector workers targeted to reduce its wage bill. Worrell is quick to

enumerate other successful cost-saving measures, such as a plan to consolidate all government revenue generation, from sales and income tax to land and property tax, under a single departmental umbrella, the Barbados Revenue Authority. The central bank and other state bodies are working closely with the IDB and the IMF to achieve this aim.

Efforts are also continuing to boost the stock of Barbadian small- and medium-sized enterprises (SMEs). A sturdy economy and a stable political system have long underpinned stability, but that can come at the expense of the entrepreneurial spirit, as the young and the ambitious plump for reliability over risk.

That's set to change. Plans are afoot to transform Barbados into a regional innovation powerhouse by 2020. And Worrell points proudly to the emergence of a “series of private and government-led initiatives to generate new entrepreneurs, new ideas, and new investment”, a process aided by support from the IDB.

There are in short few reasons not to invest in Barbados. Barbados punches far above its weight, thanks to the drive, determination and intellectual rigour of people like Worrell and respected government bodies like the CBB. He grins once more as he returns to the subject of the island's future. “When you look at all the reasons for investing for Barbados, it's clear why we are a good investment destination. We are competitive, we are business-friendly, and we are constantly focused on the need to ensure long-term, sustainable and balanced economic growth.”

“We are competitive, we are business-friendly, and we are constantly focused on the need to ensure long-term, sustainable and balanced economic growth.”

## Heading for the major leagues

Ambitious plans to transform the island's tiny stock exchange into an international securities market should further strengthen its position as a financial centre

**Y**ou can't accuse Marlon Yarde of lacking ambition. The affable chief executive officer and general manager of the Barbados Stock Exchange (BSE) is forthright as he outlines the challenges and opportunities facing both the country's leading stock market and the industry driving the island nation's robust economy: international business and financial services.

That the BSE remains a securities backwater is hard to dispute: it has grown little since its formation in 1986. By the end of 2013, it hosted just 27 listed entities, with a market capitalization of around \$5.25 billion, down 6% on the previous year. A shade over 320 million shares changed hands in 2013, mostly passed back and forth by domestic retail investors.

Yet Yarde and other Barbadian financial luminaries have conjured up a way to attract liquidity and listings to an island that in every other sphere of business activity punches above its weight. It's called the International Securities Market (ISM), and it's one of the most ambitious financial plans draw up by any emerging or frontier sovereign state in many a year.

Yarde expects to have the final rules in place by mid-2014, after which the ISM

can really get going. He predicts up to 700 stocks and bonds will be listed on the new bourse by global funds and firms over the next four years, notably in the form of long-term US-dollar bonds, and secondary equity listings by corporates with strong, existing business links to Barbados and primary listings in the likes of London, New York and Toronto.

### To the next level

Leading financial figures expect the ISM to take Barbados to the next level, placing the regional business-services leader firmly on the world stage. "We aspire to be a competitor in the major leagues," states DeLisle Worrell, governor of the Central Bank of Barbados (CBB). "Our aim is to provide the same quality of financial and business service and advice available in Switzerland or Ireland or Liechtenstein, but with the clear benefit that we can offer everything at a considerable cost advantage thanks to competitive salary packages." The latter point is particularly relevant: Barbados teems with white-collar executives working to highly competitive salary levels: here, you can get the level of business advice you'd expect in London, New York or Hong Kong, but at a fraction of the cost.

There is both logic and necessity in launching the new bourse. Barbados has

long been the region's leading business services hub, studiously defining itself over decades as an open and financially transparent low-tax economy that avoids the increasingly unacceptable 'tax-haven' label. "We always recognized that though we're a pocket-sized economy, we're still too big to live solely on licence fees and non-tax revenues, in the style of much-smaller tax havens," says Worrell.

Adds Connie Smith, managing director at Tricor Caribbean, a global provider of integrated business, corporate and investor services ultimately owned by Hong Kong-based Bank of East Asia: "We don't have 800,000 companies here and we don't sell cookie-cutter solutions. We are experts across the field of international business services – we prefer to export weightless professional services."

Take the scenic road linking the capital Bridgetown with the east coast and you can hardly miss the global brands adorning the facades of air-conditioned office buildings. The big auditors-cum-tax advisory shops (Deloitte, KPMG, Ernst & Young) are all here, as are more localized financial advisors (Sagicor, Tricor) and a plethora of local and international banks and law firms, all offering world-class service at Barbadian prices.

But despite its unalloyed and lasting success in attracting corporates, banks, institutional investors, and funds to the island, Barbados has never been seen as an obvious place in which either to list or to trade stocks or bonds. With the entrance of the ISM, that should change.

### Building the missing pillar

"We want to be a one-stop shop for all international business, financial and



**Marlon Yarde, CEO and General Manager, Barbados Stock Exchange**

capital market services, and the ISM is front and central to that ambition," says Yarde. "We offer considerable tax benefits to our business partners, and creating a vibrant, liquid stock exchange is the logical next stage in our development. We see the ISM as the missing pillar in the development of our international business and financial services industry."

The new bourse has been pondered long and hard at the highest levels – consensus-driven Barbados doesn't do snap decisions. The formation of a domestic securities market with global reach, capable of hosting stocks and dollar-denominated bonds, has been mulled over for years. Yarde and peers from across the nation's business world studied the experience of other leading island jurisdictions, from Bermuda to Guernsey, and sought advice from a consultancy service linked to the Hong Kong Stock Exchange.

Worrell believes the new exchange can transform Barbados into the Caribbean's leading financial securities hub. Moreover, he hopes it will further enmesh the

island's fortunes with those of its closest cultural and economic allies, notably the US, UK and Canada, while bringing it closer to the rising economies of Latin America, East Asia, and the Middle East.

Glyne Harrison, CEO of First Citizens Bank (Barbados), a leading pan-Caribbean lender, says the new bourse will be good news for the entire region. "There currently isn't sufficient critical mass to justify the existence of a regional securities hub," he notes. "The ISM could provide this impetus, drawing in capital from across the world and encouraging corporates from the likes of Trinidad and Jamaica to list here."

#### Solid regulatory framework

No one is under any illusion as to the importance both of getting the ISM working, and getting it right. Barbados boasts a strong economy backed by robust political and social stability and strong rule of law, and the island remains a rare point of calm and order in a world riven by emerging-market turmoil and an often stodgy global economic recovery. It boasts a solid regulatory and legal framework, at the heart of which sit the CBB, the Financial Services Commission (FSC) and the BSE.

And there are more strategic reasons to look to the creation of a new securities hub. The island's financial and economic success hasn't gone unnoticed. St Lucia to the northwest is seeking to push into the business services space, as is resource-rich Trinidad – though they are likely to struggle to keep pace with Barbados's nimble and flexible regulators and business leaders.

Besides, even as the regional competition labours to keep pace, Barbados, a paragon of stability and solidity, continues to find ways to remain ahead

of the pack. A thriving global securities market will add "another dimension" to the domestic business environment, reckons Warrick Ward, deputy CEO of the FSC, a single financial regulatory body formed in April 2011.

Once up and running, the new market is expected to draw fresh capital into the country, with banks, funds and corporates following in its wake. "We have a large number of international and private banks already based here, and they are always looking for places and ways to invest," adds the FSC's Ward. Liquidity would bring other clear benefits: it would create added business opportunities for local white-collar workers, and lead to a fresh influx of foreign exchange, the lifeblood of this small-but-vibrant, business service-focused economy.

The new stock exchange, adds Sir Trevor Carmichael, a leading lawyer and chairman of Bridgetown-based Chancery Chambers, is "vitally important to the future of Barbados' business and financial sector. If it's properly structured, it will encourage large companies to list, and by coming here, they will see the myriad other business opportunities that exist on the island. The sooner we have the ISM up and running, the sooner we can showcase it to the world."

#### Access to capital rankings

Ranking	Country	Score
1	Bahamas	5.7
<b>2</b>	<b>Barbados</b>	<b>5.3</b>
3	Trinidad & Tobago	3.8
4	Grenada	2.5
5	St Vincent & Grenadines	2.5
6	St Lucia	2.5
7	Antigua & Barbuda	2.5
8	Dominica	2.2
9	Jamaica	2.2
10	Dominican Republic	1.8

Source: Euromoney Country Risk (Dec 2013)

#### Strategic ambitions

At this point, it's helpful to place the bourse in its proper context. In many if not most frontier nations, however stable and well-run, the ISM would be wildly ambitious and, in all probability, unachievable. Even to attempt to create a global securities exchange from scratch on a small island far from the world's leading financial hubs points to the competence of the country's leaders, and their supreme confidence in achieving their strategic ambitions.

Barbados's leaders have been planning and replanning the development of the financial and business services sector with meticulous care for the past half-century. Barbados signed its first double-taxation agreement (DTA) with the UK in 1970, just four years after its independence from London. Since then it has sealed 32 further tax treaties, notably with Canada (signed in 1980), the US (1984) and China (2000). Recent years have seen a new surge of DTAs with the likes of Qatar, Bahrain, Singapore, Switzerland, Mexico and Panama.

The nature of these treaties – Barbados has signed into law more DTAs than any other nation – is testament to the ability of its political, legal, social and financial leaders to plan ahead. From day one of independence, the new sovereign's first prime minister, the Right Excellent Errol Barrow, began the process of mapping out a sustainable economic future.

A long-standing friendship between Barrow and Canadian premier Pierre Trudeau helped bond the two nations together, and the 1980 DTA, which formalized the relationship, has stood the test of time. Toronto- and Vancouver-based firms are huge investors in Barbados. To this day, the island is peppered with Canadian

banking brands, notably Royal Bank of Canada, Scotiabank and FirstCaribbean International Bank, an offshoot of CIBC, while Canuck accents sprinkle conversations in bars and restaurants.

Barbados has scrupulously built out its relations with many of the world's leading economies. Its double-tax treaties make good financial sense for two key reasons. First, they help big capital investors such as miners, energy firms or telecoms providers to avoid being hit twice on profits. A Barbados-incorporated entity pays 2.5% in annual corporate taxes, a rate that falls to an average 1.6% depending on how much foreign exchange a firm sequesters on the island.

Further highlights of the business-friendly environment include a 2.5% property transfer tax, no alien landholding licence requirements and the complete elimination of capital gains tax. Plans are afoot to draw in more long-term wealthy residents, retirees and workers by allowing anyone with personal net worth of at least \$5 million to reside on the island indefinitely.

Second, double-tax agreements also provide a supplementary level of surety when companies invest in jurisdictions with a chequered political history, or a less than salubrious record of political or labour relations. In this context, it makes good sense for, say, a US mining or energy firm to invest via Barbados in countries such as Venezuela or Cuba, both of which have DTAs with the island.

Then there are bilateral investment treaties (BITs). These aren't as watertight as DTAs, notes Donville Inniss, the highly respected and well-connected minister of industry, international business, commerce and small

business. But they do in theory offer legal protection if, say, a dispute over assets or profits in a third-party country arises, as it does on a surprisingly frequent basis.

If you invest via Barbados in sovereign states that have signed BITs with the island, there is a “clear protocol right down to the level and location of the court of arbitration,” notes Inniss. If you don’t, he adds, “you’re literally at the mercy of the countries you’ve invested in if anything goes wrong.” In recent years, Chinese companies have begun channelling capital into African countries via Barbados, providing them with a heightened level of protection when operating in countries such as Ghana or Mauritius, both signatories to Barbadian BITs.

When added together, Barbados’ cumulative strategic efforts to become, and to remain, profitably engaged with the global economy, are both impressive and commendable. Few other countries of its size, either regionally or globally, have built such a wide-ranging and complex network of self-enforcing DTAs and BITs.

#### Shared confidence

Talk to anyone here and you sense a shared confidence in the island’s future, underscored by faith in prudence and procedure. Common Barbadian attributes are patience, adherence to the rule of law and a belief that success is achieved through prudent planning and forethought. Drive along its orderly roads, or view the domestic crime rate data, and you see the truth of the matter: this is one the most orderly and safe places to live, work and travel.

In this light, the ISM, while also a great leap forward for the business-services sector, is also vital for the development of Barbados’

broader economy, and for creating new white-collar jobs. “The real beneficiary of the ISM is Barbados’s economy as a whole,” says Yarde. “The market will draw in more capital and more companies, which will create a whole new economy for local workers.

“More companies means a greater need for lawyers, auditors, accountants, clerks, helping further our aim of creating a true international business and financial services centre,” he adds. “It will lead to more local board meetings, which will require people to fly in from all over the world to use our hotels and restaurants. It’s a symbiotic process that benefits all facets of the economy.”

A new, global headline-grabbing securities market will also draw in more foreign exchange. Barbados hardly suffers from a lack of liquidity: according to the latest Euromoney Country Risk (ECR) data, compiled in December 2013, it ranks in first place among all eastern and central Caribbean islands in terms of access to capital.

But foreign exchange will remain the Holy Grail for any small natural resource-poor island nation, and Barbados is always happy to welcome a fresh influx of outside capital with open arms. This, again, is where the ISM comes in. Few regional countries have come close to competing with Barbados. Over the past half-century its far-sighted leaders have assembled an economy atop sturdy and sustainable economic principles. The new, globally oriented securities market is the next logical step forward. It’s ambitious but, for an island as well-run and well-managed as this is, it’s also appropriate. With a new stock market in place later this year, Barbados’s future is brighter than ever.

## The sky’s the limit

A robust and vibrant economy is ready to build on its strengths

**B**arbados stands at a crossroads. Behind lie a few rough years, extending from the financial crisis that rocked Europe and North America. Yet for all the tribulations, the island’s economy remains resilient, and is able to draw on revenues from a remarkably diverse assortment of fast-growing and increasingly profitable sectors.

Investment in education and healthcare has remained high throughout the past five years, while foreign investors, funds, skilled white-collar workers and wealthy retirees continue to flock to the island in search of low levels of corporate and income tax and a super-high quality of life. New legislation, set to become law in the near future, will allow individuals with more than \$5 million in bankable assets to become permanent, property-owning Barbados residents.

#### Switzerland with beaches

Look around the island and you see an extraordinarily diverse and robust economy, as stable and organized and orderly as any leading first-world financial economy, like Switzerland with beaches, or Singapore without the humidity.

The roads are filled on weekday mornings and evenings with commuters, and restaurants and bars are packed in high season, when it’s hard to get a room in

high-end hotels like Sandy Lane, Little Arches or the exquisite Colony Club.

All of which aids the growth and sustainability of probably the region’s most diverse, stable and robust sovereign state. Despite shrinking 4% in 2009 as the world gasped for air, Barbadian gross domestic product returned to growth the following year. DeLisle Worrell, governor of the Central Bank of Barbados, tips the economy to grow at a sustainable, long-term annual rate of around 3%. The island’s recent economic performance, he says, is “commendable” given the headwinds it has faced, particularly in the markets for tourism and traded services.

Euromoney Country Risk (ECR) data underscore how successful the island has been in adapting to recent challenges. Barbados’s overall ECR ranking has consistently outperformed the region in recent years, rising from 36.9 points in September 2010 – which marked the first edition of the global database – to 47.53 points in December 2013, a rise of 42 notches, to 73rd place, in barely three years.

Barbados ranked first region-wide in terms of its regulatory and policy environment in December 2013, and places second across a key range of issues, thanks to low levels of corruption, political risk and institutional risk, and an enduringly high level of government stability. In terms of

## “ Barbados’s ongoing recovery stemmed firmly from rising investment and activity in the private sector ”

access to capital and debt indicators, the latter denoting the island’s manageable debt burden, Barbados ranks second across the Caribbean.

### Reasons to be cheerful

Wherever you look, there are reasons for economic optimism. Barbados placed 47th in the World Economic Forum’s 2013-14 Global Competitiveness Report, the highest sovereign score in the Caribbean, beating the larger economies of Trinidad and Jamaica into 92nd and 94th place, respectively. Barbados cemented its status as the region’s best-run and best-managed economy in the WEF’s report, outperforming average pan-Caribbean scores across a host of metrics, including innovation, infrastructure, healthcare, education, labour market efficiency and technological readiness.

Looking further afield, Euromoney’s ratings show economists ranking Barbados alongside Mauritius (rated Baa1 by Moody’s), another vibrant offshore economy with a similar business model. Barbados also has a higher ECR ranking than Azerbaijan, also considered investment grade by Moody’s, suggesting that economists retain a much more positive view of the country than the agencies suggest.

Nor is this a static economy, reliant on squeezing value out of a few tried-and-tested industries. In a December 2013 report, the island’s central bank noted that Barbados’s ongoing recovery stemmed firmly from rising investment and activity in the private sector. Investment capital continues to flow into the business-friendly island, which boasts an average corporate tax rate as low as 1.6% for international business and services companies.

Agribusiness remains a serious business: Barbados is home to great global names in the rum trade, like Mount Gay and Cockspur. Green energy output is growing fast: solar power will make up around 10% of the island’s electricity output by 2018, notes Worrell. Barbados is also host to a number of rising green-energy names such as Solar Dynamics and Innogen Technologies.

And while the island boasts the sort of global business advisory names you’d usually find in clusters on Wall Street or in the City of London – Ernst & Young, KPMG, Deloitte – it has also succeeded in attracting some serious names in the specialized consultancy space. A notable coup came when it convinced Damian McKinney to relocate the international division of his consultancy, McKinney Rogers, from southwest UK.

### Conduit for investment

Barbados is the perfect place to find financial and investment advice. Global corporates and institutional investors have long parked their money on an island famed for its low prices and business-friendly tax regime. Barbados is a sovereign territory to invest both in and through: its double-tax agreements and bilateral investment treaties make it the ideal

conduit through which to invest capital in countries with incomplete or troublesome regulatory structures.

This makes it easier to comprehend the scale and suppleness of the island’s financial economy. Billions of dollars pass through the island on a daily basis, some of which sticks. In 2012, Barbados was the third highest recipient of Canadian-originated foreign direct investment.

And tourism, one of the island’s oldest and most reliable foreign exchange earners, is also undergoing a renewed investment boom. Sandals, the Jamaica-based luxury hotel brand, opened its first Barbados hotel in 2014. It is set to open a second resort in 2015, co-financed by Chinese investors.

Two high-end maritime projects, Sugar Point Pier and Pierhead Marina, are also moving close to getting the green light, says minister of finance and economic affairs Christopher Sinckler. About 500,000 tourists visited the island in 2013, primarily from the UK and US, while cruise arrivals rebounded by over 10% in 2013.

Pierhead Marina is one of several landmark projects designed to generate more tourism revenue, and to refine and expand the

“ There is so much we have done, and so much more we can do ”

sector’s repertoire, from cultural tourism and sporting events – the BBC programme Top Gear is holding the first of three annual two-day rallies at the Bushy Park Circuit in mid-May 2014.

### In Washington’s footsteps

As for physical healing, Barbados was a byword for medical tourism long before the term was invented. George Washington visited the island in 1751 – the only time he left the US – to cure himself of tuberculosis. The rugged east coast has meanwhile become a sanctuary for sufferers from Parkinson’s disease; the island also boasts the region’s leading fertility clinic, says Jeremy Stephen, president of the Barbados Economic Society (BES).

“Medical tourism is set to explode here,” notes Sir Trevor Carmichael, a leading lawyer and chairman of Bridgetown-based Chancery Chambers. “The sector is underexploited and I see private sector investment rolling in in the coming years.” Nor should the fabulous festivals be overlooked, notably the Rio-style Crop-Over harvest festival in July and August, when the island goes gently crazy.

And that’s not all. Barbados is fast becoming a regular stop-over for cruise ships, and has plans, underpinned by tax incentives, to become a natural destination for film-makers. Notes the BES’s Stephen: “With the widening of the Panama Canal, Barbados could become the global gateway to the Americas, which would boost revenues from trans-shipments. We are also looking to develop our logistics sector and to invest more in information and communications technology. There is so much we have done, and so much more we can do. For Barbados, the sky is the limit.”

## An underrated sovereign

Recent rating agency downgrades seem to underestimate the underlying strengths of the Barbadian economy

**B**arbados is one of the most diverse economies in the Caribbean. It's certainly the most robust, drawing in revenues from a wide range of industries (tourism, business services, manufacturing, agriculture), which feed into the region's most politically and economically stable state.

Inflation is low, the government has measures in place to bring the budget deficit to a more sustainable level and foreign reserves are carefully husbanded. The jewel in the Caribbean crown, Barbados also boasts manageable debt, low corruption and an orderly society organized and run by consensus. In short, this is as stable a country as you'll find, despite being surrounded by a curve of islands, many of which are politically unpalatable, racked with debt or, as with many frontier nations, struggling for growth in a turbulent world.

Barbados, as stable as Singapore or Switzerland, and a key economic and financial ally of the UK, US and Canada, suffers none of these travails. Yet its sovereign rating drags. In November 2013, Standard & Poor's cut the long-term rating of Barbados to BB-minus from BB-plus, citing external pressures and a small current account deficit. The following month, Moody's Investors Service

followed suit, downgrading the island's bond rating to Ba3 from Ba1.

### Why the rating agencies are wrong

Many believe the ratings giants are being unfair to an island blessed with superb leadership, a young population of 280,000, a burgeoning business services sector and an economy set to grow by about 1% over the next two years. They say the ratings agencies wrongly tar everyone with the same brush. And they are almost certainly correct. So here are a few choice reasons why Barbados is an underrated sovereign:

• **Barbados competes with the best.** "We are more competitive than the market gives us credit for," says DeLisle Worrell, governor of the Central Bank of Barbados. He points to the World Economic Forum's 2013-14 Global Competitiveness Report, which shows Barbados outperforming regional peers on a host of metrics, from financial market development to innovation, infrastructure and business sophistication. The WEF places Barbados 47th in the report, against 92nd place for Trinidad, a far larger, resource-rich economy, showing how much more Barbados has done with less. Ratings agency findings also contradict Euromoney Country Risk (ECR) data, which has over the past three years consistently presented a compelling

investment picture. The island's overall ECR ranking consistently outperforms the region, jumping from 36.9 points in September 2010 to 47.53 points in December 2013, a rise of 42 places. Moody's in November tempered its message by pledging a potential upgrade of Barbados's stock if the island's economy returned to growth. Yet the truth is, recession hasn't been a word used here since 2009. This is not an economy in trouble, as a wealth of data proves – quite the reverse.

• **It's filled with skill.** Strong economies are those that plan ahead. Barbados has been doing this since independence nearly half a century ago. With few natural resources and few cash crops, it chooses to invest directly in its people, pumping investment into healthcare and education. Many Barbadians stay in education well into college, emerging with degrees and doctorates and remaining on the island to work for the plethora of lawyers, tax advisers, auditors, consultants and accountants that dot the landscape. Financial and business services firms contributed an estimated \$100 million to government revenues in 2013 (despite Barbados

“We have a very literate, very competent labour force”

offering a corporate tax rate as low as 1.6%). "We have a very literate, very competent labour force," notes Donville Inniss, minister of industry, international business, commerce and small business. "Barbados is a jurisdiction where business works, a jurisdiction of real substance." Adds Warrick Ward, deputy CEO of the Financial Services Commission: "Barbados offers world-class business and financial services and advice, and at very modest salary rates." And it's this price equality that maintains a broad middle-class and explains why Barbados is so stable, and with such a low crime rate. "We are very different to many of our regional sovereign peers," adds Ward. "We have world-class human capital, we are able to think flexibly and to find solutions for problems, and we have political stability." A final word here from Glyne Harrison, CEO of First Citizens Bank (Barbados), a leading pan-Caribbean lender: "We don't have an abundance of natural resources or minerals so, long ago, we decided to invest heavily in our people, to ensure that our children can advance through the educational ranks. You'll find that almost everyone [at our bank] has at least a bachelor's degree – that is the basic standard. Few other countries here can say that."

• **Low tax, not no tax.** Not all Caribbean islands are the same – a fact that is sometimes easy to forget. Barbados isn't the Cayman Islands or the British Virgin Islands (BVI), archipelagos boasting zero

### Debt indicator rankings

Ranking	Country	Score
1	Trinidad & Tobago	8.1
2	<b>Barbados</b>	<b>5.1</b>
3	Bermuda	4.3
4	Bahamas	4.3
5	Haiti	3.9
6	Antigua & Barbuda	3.9
7	Dominican Republic	3.4
8	St Vincent & Grenadines	2.4
9	St Lucia	2.4
10	Dominica	2.2

Source: Euromoney Country Risk (Dec 2013)



Glyne Harrison, CEO, First Citizens Bank

corporate tax, and an awful lot of shell companies. Barbados has long been the place you go to pay tax into a world-class, financially transparent revenue system, rather than a place to conceal shadowy finances. Notes Connie Smith, managing director at Tricor Caribbean, a local provider of integrated business, corporate and investor services: "We are beyond pure financial services. People just assume we have a bunch of banks, but the reality is that we only have around 45 licensed lenders, and around 4,000 locally-domiciled international entities, from global miners to equipment makers and aircraft leasing firms. We don't do business with just anyone." Adds trade minister Inniss: "If you want to set up a dummy corporation, or a shell company, this isn't the place for you." It's worth noting here that Allen Stanford sought on three separate occasions to secure a Barbadian banking licence. The jailed former owner of Stanford International Bank was rejected every time.

• **Whiter than white.** Tax haven status becomes less appealing every year. Barbados never aspired to such a brand,

and has fought long and hard to remain on the OECD's 'white list' and off its 'grey list' of nations considered to be fostering tax evasion through insufficient financial transparency – the list has at various times included the Caymans, BVI, and Antigua and Barbuda. This matters: European and North American attitudes to tax evasion have tightened considerably in recent years (note the US's FACTA bill, signed a decade ago), making it harder to reappropriate capital from pure tax havens. "We are very strong on sharing financial transparency with other governments," notes Chris Callender, a portfolio manager at Bridgetown-based Fortress Fund Managers, which has \$350 million in assets under management. "Barbados is seen as a very clean government. There is a very strong belief here that there's a right and a wrong way of doing business. We don't train our people to do business under the table." Adds First Citizen's Bank's Harrison: "This isn't a place where you set up dummy companies. To invest here we require full financial disclosure, full due diligence. You'll never find us on an OECD blacklist, or described as a tax haven. And that makes us attractive to international companies that don't want to worry about reputational damage."

#### Credit rating rankings

Ranking	Country	Score
1	Trinidad & Tobago	6.25
2	Bahamas	5.31
3	<b>Barbados</b>	<b>3.13</b>
4	Dominican Republic	1.67
5	St Vincent & Grenadines	1.25
6	Grenada	0.63
7	Jamaica	0.63
8	Haiti	0
9	Antigua & Barbuda	0
10	St Lucia	0

Source: Euromoney Country Risk (Dec 2013)

• **Global time.** Quite apart from Barbados's handy position on the map – it's perfectly positioned for doing business in Europe, the Americas and even the Middle East – the island offers one extra, tasty appeal: speed. Business can be done here, thanks to a world-class communications superstructure, "with the speed and sophistication that you'd expect in London, New York or Geneva," notes Inniss. "You can move money around the world in a matter of minutes, and you have the confidence of the backing of a judicial system that works. Everyone quickly finds that this little island really is one of the best places in the world to do international business from."

• **DTAs and BITs.** Both these acronyms also help mark Barbados out from the regional crowd. The island has signed 33 double-taxation agreements and a dozen bilateral investment treaties with various countries over the years: the first with the UK in 1970; the latest with Singapore in 2013. These help an investor from any participating country to either cut corporation tax to as little as 1.6% when ploughing capital into a third country (in the case of DTAs) or to ensure a fair hearing at an independent court of arbitration if a deal or investment goes wrong (in the case of BITs). But the real beneficiary is the Barbadian economy, which has spent the past half-century making itself essential to the daily global cut and thrust of financial life. Again, this marks Barbados out from its regional peers.

And Barbados isn't finished there. Next up: plans to become a globally-relevant stock market, thanks to the international

“If you want to set up a dummy corporation, or a shell company, this isn't the place for you”

securities market (ISM), set for launch as early as mid-2014, and to make it ever easier to set up and do business here. "Our ambition is to become like Singapore, where you can set up a business in minutes," notes Jeremy Stephen, president of the Barbados Economic Society.

All of which paints a far healthier – and a far more balanced – view of one of the world's, and certainly one of the Caribbean's, most diverse, stable and ambitious economies, than the skewed findings of the ratings agencies would imply. "When Moody's and S&P evaluate a country they do it in my view with 'statistical perversity,'" says Sir Trevor Carmichael, a leading lawyer and chairman of Bridgetown-based Chancery Chambers. "They often fail to recognize the overall diversity and flexibility of a jurisdiction, and they lose sight of the unique fundamentals of that country."

He points for proof of Barbados's golden future to rising business and leisure arrivals from overseas, the launch of the ISM, and the push to expand into new, more profitable, and higher-value services. This is an extraordinary island nation, run by extraordinary individuals. It may be underrated by the ratings giants, but the global investor and business community knows a good thing when they see it.

