

2009

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**OTHER BUSINESS SERVICES :
CONSULTING SERVICES**

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I. THE BACKGROUND

The Terms of Reference for this concept paper demands a very short document, on a very broad topic, with very little published material to be presented in 5 minutes to a knowledgeable audience. Direct and desk research tapping the resources of the Internet, personnel from CRNM, CEDA, Trinidad & Tobago Coalition of Services, DFID, CDB and Scientific Information Services (SIS) Ltd was conducted. The following is a snapshot of continuing research which it is hoped will generate intense discussion.

II. THE DEFINITIONS & THE SCOPE

The first thing it was necessary to do was to define the terms and therefore the scope of the paper:

1. **Other Business Services** are defined as consulting services provided by a professional with up to a Master's degree and at least 10 years experience. Although the EPA (1) allows for 3 years experience, the majority if not all the requests for proposals by IFIs require consultants with the latter. The professionals include: economists, chemists, geologists, seismologists, environmentalists, surveyors, planners, engineers, agriculturalists, financial analysts, trainers, public administrators, project managers, educators, trainers etc. etc. These services do not typically include architects, lawyers, accountants or tourism consultants.
2. **Home Market** - the whole of CARICOM as the home market of nationals of any one of its countries. This fits in with the CSME and the drive to allow all its nationals, particularly its professionals to work freely across the region.
3. **Basic Data** - opportunities provided by projects funded by the International Financing Institutions (IFIs) for which extensive databases exist. Also CARICOM Governments have significant control over the projects and the awards of contracts have to follow set and transparent rules.

This means that this concept paper is mainly concerned with managing consulting in its broadest sense. A superficial understanding of the term would seem to refer to business management and in the private sector. Few studies (2) give any meaningful data on consulting services. At the time of writing reports on Caribbean meetings, in May & June 2009 (3) were not available.

III. IFI FUNDING OF PUBLIC SECTOR PROJECTS

Table I: Available Funds 2008-13 from IDB, World Bank & EDF

Country	IDB	World Bank	EDF	Total	Consulting Services (4.5%)
Bahamas	63.902	63.03	6.5	133.432	6.004
Barbados	58.909	3.62	13	75.529	3.399
Belize	21.558	0	16.12	37.678	1.696
Dominica	0	0	9.75	9.75	0.439
Dominican Republic	539.833	270.6	252.6	1063.033	47.836
Grenada	0	29.83	11.96	41.79	1.881
Guyana	283.293	30.72	72.02	385.033	17.326
Haiti	418.008	0	378.3	796.308	35.834
Jamaica	112.157	64.26	159.77	336.187	15.128
Regional	745.76	42.6	214.5	1002.86	45.129
St. Kitts & Nevis	0	7.46	6.11	13.57	0.611
St. Lucia	0	26.6	13.13	39.73	1.788
St. Vincent & the Grenadines	0	12.56	12.61	25.17	1.133
Suriname	33.211	0	26.52	59.731	2.689
Trinidad & Tobago	162.05	17.14	33.67	212.86	9.579
Total Available for the Caribbean	2438.681	568.42	1226.56	4233.661	190.472
% of Total Funding of IFI	1.65	3.02	4.3		

All funds are in US\$(M). (Data obtained from IDB, World Bank & EDF websites (4-6). For the World Bank and EDF the total funding for LAC and ACP countries respectively was used. €=\$1.30(US)

Other Funds

CDB approves approximately \$250M annually (7)

DFID is in the process of reviewing its Caribbean policy and aims to provide £13M annually (8). Its total budget is £9.1B and it allows open bidding on all its projects.

16.5% of **CIDA's** total budget of \$2.752B (CAN) is allocated to the Americas which includes the Caribbean (9).

USAID has \$962M (US) allocated for the Caribbean in 2009. This is approximately 2.4% of its total budget (10).

IFI funding is dynamic. It is possible that by the time the data is released it has changed. Therefore, a good rule of thumb is that there may be an error of $\pm 15\%$. The figures in Table I were compiled from the individual projects for each country. The IDB and World Bank databases contain the information by project, giving the total amount approved and the amount disbursed; therefore, the funds available can be calculated.

In 2000 research on the IDB Business Online data base showed: i) 4.5% of the total available funding for Caribbean development projects was for consulting services; ii) Caribbean companies received an average of 13% of that, with few if any receiving contracts >US\$200,000 whilst US, UK and Canadian companies received the whole range and definitely dominated those >US\$1M; iii) it seems that a constant amount is maintained in the system, as the amount approved for a project is completely disbursed another is commenced for about the same amount. The IFIs maintain a pipeline. This research was repeated in 2005 expanding it to the World Bank, EDF and DFID databases. In 2009 it is not only being repeated but expanded to cover all the IFIs, CIDA and USAID.

A very conservative estimate of the Caribbean market for consulting services is US\$190.5M for 2008-2013. This amount represents <5% of the market for Latin America and the Caribbean, thus a total of >US\$3.8B maybe available. Figures for CDB, DFID, CIDA and USAID are quoted above but since it will require further research to identify the projects and disbursements it seems best to note that they will add significantly to the available amounts without quantification.

Generally it is considered that a company can successfully export based on its strength in its home market. If Caribbean consulting companies have increased their share of their home market it is not apparent. It seems fair to say that they have weakened since 2000. Policies are needed to make them competitive in the Caribbean and then in Latin America, Europe and beyond.

IV. POLICY FRAMEWORK

Human Resource Requirements

Penetration of this market will take more than the realisation that it is large and can be a significant revenue earner to both the companies and the region. Those who dominate it at present will not relinquish it because of trade agreements and procurement rules requiring the inclusion of nationals. It requires tapping the entrepreneurship of university graduates who traditionally have not used their professional skills to manage competitive businesses.

The definition adopted for consulting services means that any CARICOM national with at least a first degree and 10 years experience is eligible. Preliminary research of national statistics indicates that few if any countries collect such data. Extensive tracking of the requests for proposals from the IFIs suggest that there are enough CARICOM nationals based both inside and outside the region to dominate the supply.

Maister (11) defines the three main types of services that a consulting company can supply and the different types of management they require. These areas are: expertise, experience and efficiency. It seems that projects funded through IFIs are mainly those requiring experience and efficiency to tackle problems which are fairly well defined and can be solved using standard professional methods. The projects which require new methods and a very high degree of creativity (expertise) seem to be funded more by Government's funding and are normally done through either no public bidding or restricted bidding. A good example of this is policy and strategy advice which set the parameters for projects for the whole country and at least the sector e.g. health, energy and food security.

Any institution uses consultants for two main reasons: a) it allows them access to expertise they do not have in-house and/or b) it needs an outside perspective on the problem. Given this it is clear that the Caribbean will always have a need for international consultants. Caribbean consulting companies are weak not because of lack of human resources but because of other factors which are discussed in following sections of this paper.

Access to and Use of Technology

The services sector is said to be fortunate because it requires a relatively small capital investment. Most consulting companies work with a small core of permanent administrative staff and an extensive database of consultants who essentially have home offices. A powerful laptop, printer, internet access and VOIP are now the basics required. Video conferencing services, for example, GoToMeeting, which only the largest companies could afford are now becoming more common as the costs of using them have decreased significantly. VOIP and video conferencing allow international teams to work together in real time. The limitation becomes reliable access to the Internet. It seems that the smallest countries in the region are better served than the largest, for example, the OECS than Guyana or Trinidad & Tobago. Cell phones and wireless technology will remove the barriers of even the most inaccessible areas.

Legislative Framework – Harmonisation

IFIs have procurement rules which govern procurement. They have made considerable efforts to harmonise them. In addition the rules apply across the region. This is one of the reasons that their funding is a good starting point to make consulting businesses competitive in the Caribbean.

The legislation which probably needs harmonising is that relating to the procurement laws of each CARICOM country, particularly with respect to treating all

CARICOM nationals as locals. It was not possible during the time available for research on this paper to do an in depth search on this. However, in bidding for projects which give points for the inclusion of nationals it is often necessary to ask for special permission for it to apply to all CARICOM nationals.

Finance

Many consultants utilise financing acquired as a result of other activity. For example pensions, severance pay, salary from current permanent employment, earnings from spouse and other family members. Since the majority work from home overheads for office space are included in their normal residential expenses.

Few, if any, Caribbean financial institutions will accept intellectual property as collateral for loans. Venture capital seems to follow the same tried and trusted mechanisms. Mezzanine funding seems to be even scarcer. Little is known publicly about Angel Funding which taps close friends, colleagues and family for funds that are so small that they will risk it based on personal knowledge of the person.

A very important aspect of developing competitive Caribbean consulting companies is the financial requirements to be allowed to bid for projects. In the past 9 years it has been common to see requirements that effectively bar most Caribbean companies from qualifying. Given that few obtain contracts >US\$200K it excludes them to require a turnover of >US\$1M per annum for five years to qualify. It is essential that conditions be set that allow Caribbean consulting companies to compete effectively against international companies.

Another financial requirement that needs attention is the bonds, professional insurance etc required for projects once a contract is obtained. The risks involved in supplying a report on a baseline study of a social investment project are not of the same order as building a school, airport or a road. There is a need to consult widely

with a range of consultants and prepare financial requirements that are appropriate to services and do not automatically exclude CARICOM nationals.

Incentives – Fiscal Support

The bold aim should be to grant consulting services the same incentives and fiscal support that was given to other sectors to assist it to become a sustainable revenue earner in the Caribbean. This has to be tailored to the needs of the sector and not contradict trade agreements. Some suggestions for these are:

1. Tax regimes which will assist the sector, e.g. with holding taxes for consultants working in the Caribbean.
2. 150% tax allowance for training including pursuing a Master's degree in a related discipline and obtaining the Certified Managing Consulting status
3. Tax allowances for memberships fees for sector organisations e.g. CAIC, CAC
4. Grants for marketing and developing innovative systems.

At present the incentives and fiscal support are aimed at SMEs in general and not specifically consulting services.

Opportunities from Trade Agreements

Trade agreements have the basic principle of ensuring transparency and equity of national and international service providers. This is the case under the EPA (1) and Mode 4 access clearly allows contractual service providers and individual professionals to work in CARICOM and the EU. This expands significantly the market for CARICOM service providers. However, without a policy to assist them to compete effectively it could also spell their demise. For example a consulting company specialising in working with high risk youth in the Caribbean, with innovative creative strategies, which it has developed whilst implementing projects in the Caribbean can successfully put a consortium of consultants (companies and

individuals) together to bid for a DFID project to supply those services across Africa and the UK. It would require the support to develop the systems, market them to the Caribbean, financial and fiscal support to bid for and implement projects to do this. Hence the concentration on first building strength within the Caribbean and then compete successfully outside it.

Government & Other Support Systems

The IFI funding gives a reliable indication of the size and scope of the consulting services sector. Education represents the largest part of the national budget in most Caribbean countries if not all. The largest part of that budget is spent on those who become graduates. Also allowing international consultants to obtain 83-93% of the consulting services funding deprives the region of much needed revenue and fuels the brain drain. Thus the loss to the Caribbean of the present situation is hidden but significant.

Government policy which recognises the significant contribution that it can make to the development of the region is sorely needed. This includes: a) fiscal support b) negotiating conditions for procurement that allows Caribbean consulting companies to effectively compete with international companies; c) actively supporting by sensitising both Ministry project managers, diplomatic and IFI representatives to the contribution of consulting services to the development of the Caribbean; d) providing funding for the development of services, e.g. Coalition of Services, CAIC, CAC or CICMC. This can be either funding specific projects, for example, marketing consulting services throughout the Caribbean or a subvention to the organisations allowing them to develop the capability to implement such projects.

It is a sign of the weakness of Caribbean consulting companies that attempts to form organisations to represent them have so far had little impact. The CDB in the 1990s assisted the CAC; Caribbean Export is at present supporting CICMC. CAIC in 2001/2002 also did this by supporting the participation in regional services meetings in Suriname, St. Kitts and Barbados and a meeting of COTED in Guyana. Most consultants seem to be at the survival level, therefore, the time and money that they can spend on advocacy is very limited. Given the choice between working on a report for a client and going to a CAC meeting they must choose the former. Of equal importance is the financial capability to vigorously support industry organisations. The regional organisations therefore have to be given assistance in addition to membership fees to allow them to advocate on the sector's behalf. It is in the interests of the Governments to assist them since they can contribute significantly to the development of each country and the region.

V. THE RECOMMENDATIONS

1. **Procurement rules and financial requirements** which allow Caribbean consulting companies to compete effectively against international companies for projects funded by the IFIs
2. **Support for Caribbean consulting service associations** e.g. National Coalitions of Services, CAIC, CAC, CICMC.
3. **Fiscal support** specific to the needs of consulting companies e.g. tax relief and grants to market and develop innovative systems.
4. **Inclusion into the Competitive Base of Contractors** in Development Projects. Under the umbrella of CAIC to get the agreement of regional bodies (e.g. CARICOM, CDB etc) and individual Governments that Caribbean consulting service companies be fully integrated into the competitive base of contractors from which they purchase services and the specific support mechanisms that will make this a reality be implemented.
5. **Support Mechanisms.**
 - a. **Top Management.** Expressions of support from the Prime Ministers of each country, for example, letters to relevant Ministries and presence at meetings held in the country to promote the full integration of Caribbean consultants into the competitive base. Similarly the support of the Directors representing the Caribbean in IFIs e.g. The World Bank and IDB.
 - b. **Strategic Planning.** A strategic Quantity, Quality and Institutionalisation approach (QQI), which is worked out with administrators in Government Ministries and IFIs. This would require long term work since there are so many e.g. start with the Permanent Secretary (PS) in the Ministry of Finance who gives final approval for procurement.
 - c. **Goal Development & Accountability.** The PS of Ministries of Finance to receive quarterly reports on the status of the attainment of the goals.
 - d. **Monitoring Committee** with direct access to Prime Ministers and Directors of IFIs. This should consist of members of the Coalition of

Services Committee etc. who represent and are themselves consultants and/or Caribbean service providers

e. **Outreach to:**

i. **Caribbean Consultants.** Workshops to familiarize Caribbean consultants with the IFIs and how they work with the Government Ministries, their culture, effective ways of working with them, market to them, bid and perform for each institution. Both basic and advanced courses can be held e.g. enhancement of marketing strategies, financial management and technical proposal development

ii. **Procurement Personnel.** Caribbean consultants familiarizing procurement personnel with their work and the contribution that they are making. It would present an opportunity to educate about the benefits to the Caribbean of developing its services sector. This can take place in the Caribbean and at the headquarters of the IFIs.

f. **Mid-Range Procurement Programme.** The rule of at least one should be applied here. That is at least one Caribbean company should be shown to have been considered for contracts >\$200,000(US) and at least five for those below \$200,000. For overseas companies to be offered contracts below \$200,000 it must be clearly shown that there was no Caribbean company who met the technical criteria. Once Caribbean companies meet the technical criteria and they are within the budget set they should be considered.

g. **Mentor-Protégé Programmes.** This would increase the number of Caribbean companies whose capabilities to obtain prime and sub contracts. Prime contractors should receive a range of benefits as a result of mentoring Caribbean consulting companies. An added incentive

is an Annual Award and a Conference, held in a different country each year.

- h. **Prime Contractors Roundtable.** This can take place following the Outreach Workshops with the technical personnel of IFIs. This would discuss innovative ways to include Caribbean companies as sub contractors.
- i. **Consultants Database.** The various IFIs have databases, which are rarely used. Developments in ICT now allow both the Internet and VOIP to be used to design, develop and maintain a consultants' database which can be used by procurement personnel throughout the Caribbean.
- j. **Programme Structure & Measurement Tools.** Increase the value of contracts won by Caribbean companies to 25% within 5 years. Progress towards this goal would be evaluated, blocks identified and dealt with expeditiously.

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