

**Strengthening the Capacity of
National Authorities and Regional Organisations
in respect of Services Statistics**

Situational Assessment

Final Report

MAJOR RECOMMENDATIONS AND CONCLUSIONS

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The Caribbean Community Secretariat

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November 2001

MAJOR RECOMMENDATIONS AND CONCLUSIONS

Background

The contextual background to this Situational Assessment of the Capacity of National Authorities and Regional Organisations in respect of Services Statistics is provided in the Terms of Reference that state “ In the context of the international economic environment, the twin phenomenon of globalisation and liberalization necessitate the existence of a statistical framework that can incorporate the monitoring and analysis of the internationalization of the production of goods and services. The integration of the global economy has created certain imperatives including the need for enhancing the capacity to monitor and evaluate the performance of economic sectors, particularly in the relatively undeveloped services sector of the CARICOM countries. Arrangements to treat with development of the services sector and facilitating trade in services in CARICOM have recently been in the forefront of regional collaborative efforts”.

Special reference is made to Protocol II. “Implementation of Protocol II requires the notification and removal of restrictions by Member States to the right of establishment, provision of services and the movement of capital. It is anticipated that with the full implementation of the Protocol an environment would be created for trade in services in the Region. Critical to monitoring the implementation of the new activities envisaged is the ability to collect data and related information on all services activity-both on the production and trade aspects. The capability to monitor performance and provide information to decision makers for the preparation of policy positions and also inform international negotiations is considered to be an important imperative.”

“Additionally , Member States, the private sector and regional organizations must have the appropriate statistical data to make informed decisions. National Statistics Offices(NSOs) Central Banks and other organizations involved in services statistics do not have the capacity or capability to produce the range and breadth of statistics required. Government and private sector organizations need to have services statistics to monitor performance and determine the economic and investment climate, business opportunities and forecast economic direction. Member States with strengthened statistical capabilities to effectively collect, analyse and provide detailed reports on services data and information, can provide the necessary information and data support to the operation of the CARICOM Single Market Economy”.

Goals of the Project

1. Important among the goals of this Assessment, is to evaluate the adequacy of existing statistical programmes

- (i) for meeting the needs of policy makers, trade policy analysts and trade negotiators engaged in fostering and analysing growth and structural transformation in the economies of the CARICOM member countries, through promoting the development of services production both for domestic consumption and for international trade, and
- (ii) for assessing and monitoring the impact on the domestic economy of widening markets through liberalisation of trade in services, by removing restrictions under Protocol II for the CARICOM region, as well as through other trade agreements in which the region and the member states will be involved, such as FTAA and GATS.
2. The assessment brings together two aspects. First identification of the analytical purposes for which data are needed and the statistical framework within which they can be expressed, Second review and evaluation of the statistical programmes through which the data are collected and compiled and recommendations on how they can be enhanced and expanded to meet user needs.

Services Statistics

3. A relatively new area of rapidly growing interest to policy makers, both in the interests of diversifying the economy and in the context of trade liberalisation, services producing industries are varied and large in number. The requirement is for both industry and product statistics. They are needed for all service industries that range from goods related service industries, such as Transportation and Storage that carry goods from the producer to the consumer and Wholesale and Retail Trade, to Construction services, Communications, Financial Intermediation and Insurance, Real estate and Rental, Business services, Hotels and restaurants, Other community, social and personal services that include Entertainment, Sports and Recreation and services incidental to agriculture, forestry, fishing, mining and manufacturing services, to Public Administration and Defence, Education, Health and social work. Of these all, except Public Administration and Defence and some areas of social services, are of interest to trade policy analysts. As compared to the goods producing industries of mining, manufacturing and the utilities, it is more difficult to collect data from services industries. The definition, identification and data collection about services products is much more complex than for goods
4. As compared to goods producing industries, it is much more difficult to collect data from service industries because of many factors. Not least among them is the fact that this sector of the economy is characterised by the existence of a large number of units. A larger proportion of services output is produced by small units that either do not have developed accounting systems or are reluctant respondents. Service products are much more difficult to define, identify and collect data about.

Classification

5. The two major classifications that are used to collect and compile business statistics are industry and product classifications. The current United Nations standard classifications relevant for services statistics are the International Standard Industrial Classification (ISIC Rev3) and the Central Product Classification (CPC v 1.0). The classification used for compiling international transactions in services is the Balance of Payments classification (BOP classification) presented in the fifth edition of the Balance of Payments Manual and most recently the extended BOP classification of services (EBOPS) in the Manual on Statistics of International Trade in Services.
6. Statistical Classifications are designed to collect, and classify statistics to facilitate analysis. The detail or some intermediate level of the same classifications can also be regrouped and used for a legal purpose such as for the GATS agreements or Protocol II of the Caribbean Community. The GATS Services Sectoral Classification GNS/W/120 is the legal classification based on the Provisional CPC that was created by the GATS as a basis for the Uruguay Round
7. *If the same classification is used for both legal and statistical purposes and data can be produced, those data can be used to monitor legal agreements. However, whatever may be the requirements of users, the ability of statistical agencies to compile statistics is constrained by current data collections, the resources available to them to assemble and process additional data and equally importantly, data sources and the willingness of their respondents to provide the data. The level of detail at which the data can be collected depends upon how respondents keep their records, or are willing to keep their records.*
8. International Trade in Services data are collected in the context of compiling the Balance of Payments. A new extended Balance of Payments classification has now been created but even EBOP is not as detailed as GNS/W/120. *Thus in most countries of the world, the level of detail at which data on international trade in services are collected for their Balance of Payments programmes is still very much higher than that of the lowest level of the GATS Sectoral Classification (GNS W/120).*

Issues and Recommendations

9. User needs, and the current situation are discussed in detail in the main body of the Report. They are outlined and detailed recommendations are provided under the following headings:

(a) International Trade in Services

- (b) Domestic Production of Services
 - Business Register
 - Production Statistics
- (c) Labour Statistics.
- (d) Tourism Statistics
- (e) Foreign Affiliate Trade Statistics
- (f) Presence of natural persons

User needs

10. Services are produced, domestically consumed and traded internationally.

Four modes of supply- The nature of services is such that they can be delivered across international borders in a variety of ways. The concept of four modes of supply is used to explain the four ways in which services can be traded internationally. The concept is used in Agreements related to trade in services such as Protocol II and the GATS.

Data required to monitor

mode 1 “cross border trade” are data on the value of exports and imports of services, directly exported from the territory of one country to the territory of the other;

mode 2 “consumption abroad” are data on visitor expenditure on services that occurs when visitors cross the border to consume services in an economy , other than the one in which the visitor resides;

mode 3 “commercial presence” are data on the activities of foreign affiliates [known as foreign affiliate trade statistics (FATS)] ;

mode 4 “ presence of natural persons” are two sets of data. One is the value of services delivered by persons [owners or employees of service firms, or self employed] and the other are numbers and compensation and country of origin of persons, temporarily residing in the country to deliver a service.

Current situation

11. (a) **International Trade in Services** –Analysts need data on the value of exports and imports and the industries that produce them. International trade in services data exist, as part of the statistical compilation of the Balance of Payments. They are collected and published at varying levels of detail by the different countries. The detail collected needs to be expanded first to level of detail of EBOPS and further to selected levels of the Central Product classification (CPC) to meet the needs of the trade negotiators for data to monitor the first and fourth “modes of supply – cross border trade directly exported and imported or delivered by persons”. The lack of data on the country of origin of imports of services and the country of destination of exports of services is a particularly important data gap for monitoring trade within the CARICOM region and with other regions of the world,

(b) Production statistics- Of great importance is the availability of production statistics about services industries. Analysis of the role and importance of the production of services in the economy requires assembly of statistics about services produced in the economy and the industries that primarily produce them. Industry detail needs to reflect all service industries of analytical interest and importance and new and emerging activities, among which are Finance, Informatics, Business Services, Tourism related industries of Accommodation and Food , Recreation and Entertainment and Manufacturing Services.

Thus in the first instance to provide necessary survey frames, Business Registers need to be expanded and continuously updated and maintained.

Analysts need to be able to compare production and international trade and study the impact of trade liberalisation on production and employment in the economy. The interface between domestic production and trade is in the dimension of transactions, or products. It is necessary to assemble both industry and product statistics about services because the same product can be produced by more than one industry. Service products can also be produced by goods producing industries as their secondary output.

Existing services production data collections are mainly for groupings of service industries The detail needs to be extended. Data about products is practically non-existent and collection needs to be started.

(c) Labour statistics- Among the policy objectives in the regional efforts to promote trade in services is job creation within the domestic economy of each country as well as opening job opportunities intra-regionally. Data are needed on the total labour force, employment and unemployment. Data for the unemployed are required by skill/occupational category, educational attainment, age and gender. Data from household surveys, the census of population and labour force surveys are also required to supplement business surveys to capture the universe of producers of services, because of the large number of households engaged in providing services. In all countries information on employment is collected regularly in more or less detail. However not all the information is available to users in a format they consider easily accessible.

(d) Tourism statistics- Tourism is a particularly important source of income in the region. Data are needed to monitor the second “mode of supply-consumption abroad”, to study the costs and benefits of Tourism. In all countries the ‘Travel’ component of the Balance of Payments is measured. To arrive at the estimate, all countries measure international arrivals and take cruise ship surveys and exit surveys at airports to obtain estimates of international visitor expenditure, some more frequently than others and some in more detail than others. These

(e) Foreign Affiliate Trade Statistics (FATS)- A most important mode of delivery of services, as yet no country compiles “Outward FATS”. Currently only Trinidad compiles “Inward FATS” statistics. Their methodology needs to be adopted by other countries in the region. As well, now that service firms, e.g. construction firms belonging to one country are undertaking construction projects in other countries of the region, “Outward FATS” within the region should be compiled by countries whose domestic firms are undertaking construction or setting up subsidiaries in other countries within the region and in other countries.

(f) Presence of natural persons- This is a very important area which concerns the value of services delivered by persons travelling to other countries to deliver services. It also requires the measurement of the number of persons that take up temporary employment and residence in the territory of another country in order to deliver services, and their remuneration. Currently there are minimal statistics on this subject.

12. The services statistics required to meet the need of the various analytical purposes mentioned above have to be assembled from diverse sources, processed, integrated and assembled into a common framework. In most countries, a number of agencies are participants in the process, among which are the statistical offices, central banks, and tourism authorities as well as administrative agencies such as immigration departments and tax departments.

The main finding with respect to the current situation is that though some data currently exist, to meet the full range of user needs for services data, services statistics programs require enhancement.

Recommended three year work program

13. A three- year work program is outlined that address issues of

Low response rates that were identified to be a serious problem

Improving coverage of service industries

Expanding product detail

Updating and maintaining the Business Register

Addressing the issue of estimating the output of particularly intractable service industries e.g. Business and Professional Services

Beginning the compilation of FATS

Investigating the possibility of collection of statistics on the presence of natural persons.

14. It is suggested that certain activities can be started without an infusion of resources e.g compilation of available data on international trade in services and production,

for the Region and extraction of available detail on international trade in services and production that is collected but not currently published or released .

Resource Requirements

15. Strengthening the capability of the statistical offices requires infusion of resources in two main areas. The first to enhance the analytical capabilities of the offices through the provision of dedicated staff assigned exclusively to addressing the complex issues of collection , compilation and analysis of services statistics to meet the needs of increasingly sophisticated users. The second to enhance the quality of survey data through improving response rates and coverage .The number of field staff and interviewers requested is a reflection of cut-backs that many offices have faced over the last decade, making it increasingly difficult for them to achieve satisfactory response rates. Face to face interviews and intensive follow-up has been demonstrated to be the principal means by which a better response rate can be **achieved**. In addition they are required to support the new initiatives outlined in the work programme.
16. The resource requirements shown in the table takes into account the practical problem that, since the professional and technical staff of the statistical offices are already fully extended, any additional procedures such as those required for services statistics, can only be undertaken if present level of staffing is increased.
17. In addition to the resources listed in these tables, it is recommended that a dedicated professional with adequate support be assigned by CARICOM Secretariat to promote and coordinate recommended initiatives concerning the several aspects of collecting and disseminating services statistics. Such an initiative will further the desirable goal of systematic and coordinated development in the Region. This is a most useful role for the CARICOM. Secretariat to undertake.

Improving Response Rates

18. A very serious problem with respect to the collection and compilation of services data in particular, seems to be the low response rate. Indeed, this was without doubt the primary problem identified by the Statistical Offices in every country and by the Central Banks. In order to bring about change both in the culture towards reporting and in the approach to eliciting responses and to obtaining basic data, the issue has to be tackled at a variety of levels. The type of programs that should be undertaken have been elaborated in the Report. The following actions are also recommended

(1) At the very highest level it is necessary for Senior Ministers of Government and the Central Bank to stress the importance of statistics and urge businesses to provide them, particularly in the context of trade negotiations in which the Government is interested both in protecting their interests within the domestic economy by assisting them to become more efficient and capable of competing in world markets and helping them to enter international markets.

(2) The statistical agencies need to be given more staff to be able to follow up with respondents to obtain replies.

(3) The staff of statistical agencies need to develop and place greater reliance on the statistical skill of sampling and estimation to make up for low response rates. This is only possible if they are able to hire skilled staff and develop the skill of drawing on data from various sources and develop judgement as to how to use small samples as representative of larger but focused universes.

Interagency Cooperation

19 Data on exports and imports of services are usually collected as part of the program of collection for the Balance of Payments by Central Banks. Since the abolition of exchange controls the Banks have increasingly to rely upon collecting information from the same services producing businesses as the statistical offices. It is most important that the two agencies cooperate in the collection of data. It is important that the two agencies should share information and cooperate to develop a good business register. Exports of services can also be collected from businesses at the same time as they are asked for data on revenues or production, and data on imports can be requested at the same time as they are asked for purchased services. Analysts now also need to know the country of destination of exports and the country of origin of imports. Each country will need to review how best to expand the coverage and detail of their international trade in services data, whether by expanding the program of the Central Banks or the Statistical Offices or both.

20. Similarly close cooperation is required between the agencies responsible for collection of information from visitors, the compilation of data for the Travel component of the Balance of Payments and development of Tourism statistics. Without interagency cooperation it will be difficult to collect information about “the presence of natural persons”

Technical Assistance and Training

21. Technical Assistance and Guidance should be sought to develop services statistics but more particularly in some of the more intractable areas such as Professional services and Entertainment to assemble data both about production and exports both in the countries of the OECS and the Region. The use of “technical assistance” can be viewed not only as providing advice and assistance of a technical nature, but also as a means of increasing the analytical capability of statistical agencies in the short-run.

22. Technical Assistance could also be used for the OECS region and Surinam in which some member states need to draw upon the experience of other countries within the region to up-date the tourist expenditure patterns that are being used to arrive at their Travel figure for the Balance of Payments.. In the first instance the more up to date expenditure of other countries in the region could be used judiciously. Later exit surveys should be taken at periodic intervals.
23. Training- The staff of statistical offices would benefit from being given a variety of technical training.

Workshops

24. It is desirable that focussed workshops designed for the purpose of resolving issues, should be held for technical staff working in the particular area which is the subject of the workshop. These workshops should be used as an opportunity to draw on “best practices” within the region for implementation in their own countries, to improve questionnaires and methodology and develop statistical programmes in each area that needs to be enhanced. Given the relative lack of knowledge about the concepts and statistical compilations required by trade negotiators and analysts, and those recommended in the Manual on Statistics of International Trade in Services (MSITS), a workshop should be organized to provide a forum for in-depth review of them in order to develop programmes for appropriate implementation in the region. The workshop should be designed to enable participants to understand the overall framework and resolve technical problems in successfully compiling statistics for particular service industry groups, such as Business Services and the Entertainment Sector, in identifying the detail that should be collected in the product dimension for both production and exports and facilitate the compilation of Inward FATS statistics.
25. Another workshop should be held for staff from the region responsible for compiling Tourism statistics to assist them to resolve problems related to their visitor expenditure statistics and Tourism related industries. The country coordinators for Tourism statistics should have an opportunity to understand the Tourism Satellite Account, and how to collect and compile required statistics for this statistical framework adapting it to the reality of their situations, in terms of detail. They should be encouraged to compare their questionnaires and methodologies and adopt best practice from within the region.

Intra-regional coordination.

26. It is recommended that CARICOM Secretariat play a leading role in:

- (i) raising awareness of the need for services and international trade in services statistics and the need to enhance services statistics programs in the Region.
- (ii) providing opportunities for working level staff to share experience and best practices and receive technical assistance to enhance their services production statistical programmes.
- (iii) propagating knowledge of the Manual on statistics on international trade in services and its recommendations , directly and through workshops .
- (iv) facilitating understanding the Tourism Satellite Account and arranging technical assistance and workshops to assist countries to implement it.
- (v) creation of a database/compendium that can be enhanced as data availability improves, of data relating to production and international trade in services , by bringing together and making available, existing data relating to production and international trade in services as well as the demand and supply sides of Tourism statistics to raise the awareness of existing data among analysts in the region.

CONCLUSIONS

Services Statistics

27. Statistical Offices in the OECD countries which have extensive services statistics programmes have all had to make an infusion of resources into the collection of services statistics. In addition to mining and manufacturing and the utilities, some of them were already covering construction and services related to the distribution of goods namely, transportation, storage and wholesale and retail trade, hotels and restaurants, in their regular programmes. Most of them have received an enhancement in their budgets during the last 10 years to develop the areas of communications, finance and business services, education and health. Most of them are only now collecting services product data in their economic statistics programmes.

28. The member countries of CARICOM, need to considerably expand their programmes of services statistics. To do so, they need an infusion of resources. In the longer term,given the importance of statistics and the need for services statistics in particular, there is a need to review the position of statistical offices within the hierarchy of Government. Their status and salary levels need to be improved. To be successful in collecting statistics from businesses, they need to develop long term

relationships with them and they need to be given the resources to do this. They have insufficient staff to be able to make personal contact, undertake necessary follow up and assist small businesses to respond to questionnaires. Many of them seem to face difficulties in recruiting and keeping staff. They need dedicated staff to undertake research and carry out regular programs. They have excessive staff turnover and unfilled vacancies. Promising personnel have to leave to further their careers. There also needs to be a greater appreciation of the timeliness concerns within which statistical offices have to operate. If statistical offices are to be efficient and provide timely statistics, they need to be given greater autonomy in staffing and decision-making.

- 29.** What is needed to improve services statistics in the countries of the Region has two essential components, namely (a) technical- statistical, and (b) institutional and organizational. Both are vital for improvement, and it is unlikely that one can take place without the other. Both clearly require resources, technical resources and financial resources. Our recommendations are framed with the consciousness of competing demands and priorities for the countries' resources, in which statistics are not high on the list; yet this situation has to confront increasing demands of more sophisticated users in the decision making directorate as it becomes more involved with the demands of globalization and wants to have data immediately. We have therefore given considerable weight to technical assistance and training, both because they are needed to improve the statistical capacity and because they may be more amenable to funding from external resources. We would also recommend that in the immediate short-run the larger Statistical Offices review their resource allocation and consider the possibility of reallocating some staff to the development of Services statistics.
- 30.** The estimates of resources are minimum requirements. Even if the number of total personnel seems striking, it must be recognized that staff cutbacks have occurred and that current staff are stretched to the limit. They are spread too thinly so that even though there seems to be a feeling that there is need to work on all fronts simultaneously or get left behind, the price paid is neglect of some area such as services statistics.
- 31.** Given the challenge of compiling statistics in the new areas of Business Services, Finance and Telecommunications and Informatics, statistical offices need Research Units or Research Staff to undertake data compilation by adopting methodologies of sampling, estimation, data confrontation, and use of indirect indicators. They also need staff for follow up to improve response rates.
- 32.** There appears to be a perception in the region that "there are no statistics on services" currently available. On the contrary, there are indeed statistics on the production of some services, and on imports and exports of services. The latter are to be found in the balance of payments accounts of all member states. Some are available in more detail than others. It would be useful for the existing data to be brought together and published as such.

- 33.** At the same time there seems to be little perception on the part of the user community that the collection and compilation of services statistics is a complex matter and cannot be achieved overnight. Improvements are needed in the level of detail collected, and in the coverage of services. but it is necessary to point out that the ability of statistical agencies to compile statistics is constrained not only by current data collections, and the resources available to them to assemble and process additional data, but equally importantly, by the willingness of respondents to provide the data. The level of detail at which the data can be collected depends upon how respondents keep their records, and their willingness to provide information to the statistical agencies. Though resource intensive, personal contact is an effective means of overcoming the reluctance of respondents to provide data. The recommendations in this report give some prominence to addressing this latter handicap on a continuing basis, both for the immediate needs for data and for the long- term maintenance of the desired data bases.

- 34.** The report recommends that the CARICOM Secretariat take the initiative in allocating resources within the Secretariat for the purpose of - undertaking activities to raise awareness in the Region for the need for Services statistics, for promotional activities, for organizing technical assistance and workshops and for assembling available data.