

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BARBADOS****IDB COUNTRY STRATEGY  
2015–2018****APRIL 2015**

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Bank Portfolio Report  
Growth Assessment  
Integrated Coastal Zone Management and Climate Resilience Sector Note  
Energy Sector Note  
Productive Infrastructure Sector Note  
Tourism Sector Note  
Private Sector Development Note  
Public Sector Modernization Note  
Social Protection and Labor Markets Note  
Gender Note  
Fiduciary Note  
Civil Society Consultation on the Country Strategy with Barbados 2015–2018

## ABBREVIATIONS

CCP	Compete Caribbean Program
CDB	Caribbean Development Bank
CEDA	Caribbean Export Development Agency
CIF	Caribbean Investment Facility
CIP	Coastal Infrastructure Program
ConSoc	Civil Society Consulting Group
CPE	Country Program Evaluation
CRMP	Coastal Risk Assessment and Management Program
CS	Country Strategy
CZMU	Coastal Zone Management Unit of the Government of Barbados
DFATD	Foreign Affairs, Trade and Development Canada
DfID	UK Department for International Development
EE	Energy Efficiency
EIB	European Investment Bank
EU	European Union
FMP	Operations Financial Management & Procurement Services Office
GCI-9	IDB's Ninth General Capital Increase
GDP	Gross Domestic Product
GOB	Government of Barbados
ICZM	Integrated Coastal Zone Management and Climate Resilience
IDB	Inter-American Development Bank
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
LAC	Latin America and the Caribbean
LFIs	Local Financial Institutions
MDBs	Multilateral Development Banks
MIF	Multilateral Investment Fund
MFE	Ministry of Finance and Economic Affairs
MTW	Ministry of Transport and Works
NIS	National Insurance Scheme
NSG	Non-Sovereign Guaranteed
ODA	Official Development Assistance
OECS	Organisation of Eastern Caribbean States
OVE	Office of Evaluation and Oversight
PBL	Policy Based Loan
PPP	Public-Private Partnership
RE	Renewable Energy
SG	Sovereign Guaranteed
SME	Small and Medium-Sized Enterprise
TC	Technical Cooperation
UN	United Nations
WB	World Bank

## EXECUTIVE SUMMARY

<b>Country Context</b>	Barbados is a stable democracy. However, the international downturn has exposed its vulnerability to external shocks. Per capita incomes remain below 2007 levels, unemployment is high compared to regional standards and exports are relatively flat. Persistent and acute fiscal deficits, stagnant growth and high public debt of 98% of GDP (above 130% of GDP inclusive of National Insurance Scheme (NIS) holdings) are stifling economic activity. The Government's 19-month fiscal consolidation program was extended by one year until April 2016 and is expected to restore fiscal balance and growth.
<b>The IDB in Barbados</b>	The IDB was a significant source of support during the challenging years following the 2008 global financial crisis, front-loading countercyclical resources and advancing technical work on tax policy and quality and efficiency of public expenditure. The Bank will continue its engagement by supporting Barbados' strategy to restore macroeconomic stability and spur growth while ensuring protection for vulnerable social groups. Previous chronic underperformance of the investment portfolio has been reversed via cancellations and strict adherence to new project-readiness discipline.
<b>Priority Sectors 2015-2018</b>	The 2015-2018 Country Strategy would be focused on private sector competitiveness and improved efficiency of public sector services to address binding constraints to growth in the following sectors: (i) Tourism; (ii) Transportation and Logistics; (iii) Energy; and (iv) Integrated Coastal Zone Management and Climate Resilience.
<b>Lending Framework</b>	The proposed indicative sovereign guaranteed (SG) envelope would be US\$200 million*. The pace and size of the investments will consider absorptive capacity and factors that could contribute to significant progress in terms of execution. Changes to the indicative envelope would be guided by the sustained improvement in the execution of the investment loan portfolio, with annual disbursement of at least 12.7% of the undisbursed SG loan balance at the beginning of the year. If realized, this level of lending will keep IDB's share of debt unchanged at about 6% of GDP and 16.1% of external debt.
<b>Strategy Implementation</b>	The objective of this Strategy is to help restore sustainable growth in Barbados' economy by supporting greater private sector competitiveness and enhancing efficiency in service delivery by the public sector. The Bank will continue to provide support to mitigate vulnerability to external shocks and natural disasters and to implement the domestic economic reform program. The initial SG engagement will include focused investment operations to boost growth and social protection, while seeking to develop the technical underpinnings of the macroeconomic reform program. This will include expanding ongoing improvements in the implementation of investment projects.
<b>Donor Coordination</b>	The IDB and the CDB are the only two multilateral development banks active in Barbados. The IDB holds the largest share of debt and is the primary source of technical assistance. Collaboration with donors includes areas such as water, education, energy, private sector development, youth, citizen security, and public financial management.
<b>Risks</b>	The deteriorating fiscal position and weak macroeconomic context pose the main risk to the Strategy. In an environment of low growth, the country's high level of public debt and its composition is a risk. With limited fiscal space, Barbados is vulnerable to negative shocks (natural disasters, interest rates, prices of imports or weak demand for service exports). Efforts to boost growth, increase private investment, and protect vulnerable groups will founder unless stability is restored. The Government has not achieved the targets in its current fiscal consolidation program. The IMF in its latest Article IV states that recent fiscal measures, if fully implemented, should stabilize debt levels by 2016. Even with full implementation, fiscal financing pressures and external sector sustainability would remain challenging. Further, fiscal consolidation alone is insufficient to unlock growth. Efforts to diversify the economy and increase productivity are of paramount importance. Barbados' historical successes in forging effective social and political consensus to face economic challenges will be an important factor to mitigate these risks.

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\* This indicative figure includes programming in 2014 during the transition period from the previous Country Strategy.

**BARBADOS COUNTRY STRATEGY MATRIX**

Country Development Goals	IDB Priority Sector	IDB Strategic Objectives	Expected Results of the Strategy	Indicators	Baseline Values
Competitiveness and growth	<b>1. Tourism</b>	Tourism growth and reinvigoration	Increase of tourism receipts	Average expenditure per overnight international visitor  Onshore average expenditure per cruiser	US\$955 (2012) (World Tourism Organization)  US\$60.9 (2012) (Ministry of Tourism)
Infrastructural modernization to improve competitiveness and efficiency in the movement of goods and people.	<b>2. Transportation and Logistics</b>	Improving logistics sector	Improved performance of export logistics infrastructure and services	- Export time (days)  - Average container export cost (US\$)	9 (2013) (Doing Business Report, World Bank)  US\$810 (2013) (Doing Business Report, World Bank)
			Improved condition of the road network	- Paved road network in regular or poor condition (according to IRI (%))	30 (2013) (Ministry of Transport and Works)
			Reduce dependency on liquid fossil fuels by promoting renewable energy, energy efficiency and the efficient use of fossil fuels (including natural gas) for power generation	<b>3. Energy<sup>1</sup></b>	Increase the % of RE in the energy matrix and increase energy efficiency (EE)
Build a green economy	<b>4. Integrated Coastal Zone Management and Climate Resilience</b>	Strengthen capacity for ecosystem-based ICZM and increase coastal resilience	Improved understanding of the value of coastal and marine ecosystems in coastal protection and other economic uses  Coastal protection infrastructure expanded and essential ecosystem services maintained	- % increase in development applications reviewed by the CZMU that consider the economic valuation of coastal and marine ecosystems  - Length of coastline (km) with coastal protection infrastructure that incorporates ecosystems-based systems	0 (Coastal Zone Management Unit)  0 (Coastal Zone Management Unit)

<sup>1</sup> All indicators calculated annually.

Country Development Goals	IDB Priority Sector	IDB Strategic Objectives	Expected Results of the Strategy	Indicators	Baseline Values
			Coastal resilience mainstreamed in sector policies and in plans of strategic partners and community programs	- No. of strategic partner sector policies and plans updated to incorporate ecosystems-based ICZM and coastal resilience	0 (Coastal Zone Management Unit)
				- No. of community programs implemented that address coastal resilience	0 (Coastal Zone Management Unit)
			Enhanced tourism private sector investment in sustainable coastal management	- Increase in the number of coastal projects co-financed by the private sector	1 (2013) (Coastal Zone Management Unit)
				- IDB Risk Management Index <sup>2</sup>	45 (2008) (Indicators of Disaster Risk and Risk Management for Barbados)
	<b>5. Use of Country Systems</b>	Increase the use of the external control and accounting and reporting country subsystems in Bank-financed projects.	Increased use of the country financial management subsystems in Bank financed operations	% of portfolio (number of loans) using: <ul style="list-style-type: none"> <li>• External control</li> <li>• Accounting and reporting subsystem.</li> </ul>	% of loan portfolio using: <ul style="list-style-type: none"> <li>• External Control - 30%</li> <li>• Accounting &amp; Reporting -10%</li> </ul> (FMP/Country Office Barbados)

<sup>2</sup> The Risk Management Index, one of the IDB Indicators of Disaster Risk and Risk Management, measures country performance in risk management in terms of the four public policy areas of disaster risk management viz. risk identification, risk reduction (prevention and mitigation), disaster management (preparedness and response); and governance and financial protection. It ranges from 0 to 100.

## I. COUNTRY CONTEXT

- 1.1 Barbados has performed remarkably well since independence in 1966. Between 1980 and 2013, per capita income increased fourfold (US\$4,122 to US\$15,373). In 2013, it ranked 38 out of 187 countries on the Human Development Index, which is the highest in Latin America and the Caribbean (LAC). Since independence, the country is a stable democracy with strong institutions and a highly literate work force. With a population below 280,000, Barbados is an open economy with a land mass of 430 square kilometres.
- 1.2 The backbone of economic activity is tourism, which directly contributes around 12% of GDP through hotels and restaurants, but indirectly over 40% of GDP. It also drives the demand of non-tourism sectors, like construction, manufacturing and services. Natural disasters have caused significant damage in the past and pose a risk to the economy of Barbados. The country enjoys strong economic links with the Eastern Caribbean nations and with strong air connectivity there is potential for greater trade and tourism with emerging markets.
- 1.3 The 2008 international downturn exposed structural weaknesses that suppressed growth and challenged macroeconomic stability. Barbados' economic environment has been characterized by low economic growth and constrained fiscal space. The immediate effects of the crisis forced a contraction of real GDP equivalent to -4.1% in 2009 and marginal growth thereafter (0.3% annually), with sectors critical to the tax base abridging even more. Tourist expenditure waned by 23% between 2009 and 2011, leading to a reduction in the demand for tourism-related services and higher unemployment rates<sup>1</sup>. An attempt to cushion the economic downturn widened the gap between revenues and expenditures and led to a rapid accumulation of public debt.
- 1.4 The country's reliance on food and fuel imports has led to sustained trade deficits over time. The current account balance has been in deficit since 1995, peaking at 12.8% in 2011. Over the past 5 years, imports of goods and services accounted for about 51% of GDP annually. Barbados has a narrow export base and relies mainly on a few trading partners. With a fixed exchange regime at a rate of BDS\$2 = US\$1 since 1975, these imbalances have put pressure on reserves, which accentuated with the global economic downturn.
- 1.5 Barbados' international competitiveness has slipped as a result of the deteriorating macroeconomic framework (low growth, high deficits, low investments, high public debt levels and a strong Barbadian dollar). Between 2000 and 2011, labour productivity growth fluctuated between -3.6% and 3.7%, while averaging 0.4%. The country had little fiscal cushion when the international economic crisis hit. Despite tax rate increases and expenditure controls, fiscal consolidation targets have not been met and public debt increased from 53.3% in 2008 to 97.6% of GDP in 2013. If lending from the National Insurance Scheme (NIS) is included, the debt ratio to GDP is above 130%.
- 1.6 The outlook for growth is modest over the medium term. The Central Bank estimates that growth in 2015 would be approximately 1.2% and around 2.5% in 2016. The country is challenged with an increasing fiscal deficit, which exceeded 12.3% of GDP in FY 2013/14, and that has led to a rapid accumulation of public debt.<sup>2</sup> This is the result of lower-than-expected revenue collection, an 11% decrease with respect to FY2012/13, and higher spending, particularly the public sector wage bill and transfers to public enterprises. The current administration recognizes the urgency of regaining lost growth and is focusing on implementing a 19-month fiscal consolidation program (2013-2015) accompanied by investment in capital projects. The GOB's 19-month policy program focuses on reducing public spending through public sector retrenchment and lower subsidies and transfers, as well

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<sup>1</sup> Unemployment in the tourism sector increased from 9.8% in 2007 to 16% in 2011. Long-stay tourist expenditure dropped from US\$1.1 billion in 2008 to US\$900 million (in real terms). Source: Central Bank of Barbados September 2012.

<sup>2</sup> The Government of Barbados indicated that the increase was due in part to a change in its accounting practice which sought to include all expenditure in its Estimates of Revenue and Expenditure and to eliminate supplementary requests.

as revenue measures to contain the country's financing needs. It may stabilize public finances in the medium term if implemented fully and to the extent that it unlocks structural changes. These investments are focused on the tourism sector and through Public-Private Partnerships (PPPs) seek to diversify the economy and trading partners, and ease pressure on the budget.

- 1.7 Unemployment is high at 13.2% at the end of June 2014. Since 2007, GDP per capita decreased by around 6%, from US\$16,336 to US\$15,373 (2007-13). At the same time, poverty levels could increase above the registered 19.3% of the population given the current economic environment.<sup>3</sup> The Government of Barbados (GOB) has identified the need to strengthen and expand existing social protection programs to support the poor and vulnerable, especially since the improvement of its fiscal position may require further austerity measures. The IDB can assist the GOB in designing and implementing social programs given its experience in the region.

## **II. IDB IN BARBADOS**

- 2.1 Currently, only two multilateral banks lend to Barbados - the Caribbean Development Bank (CDB), and the IDB. IDB holds the largest share of multilateral debt (67%) and constitutes an important source of technical assistance to government and non-governmental entities. Nevertheless, in 2013, the IDB represented 17% of external public debt, 4.5% of total public debt (inclusive of NIS) and 5.6% of GDP.
- 2.2 The 2009-2013 Country Strategy (CS) was approved in November 2009, with priority areas in: (i) coastal infrastructure and climate change adaptation; (ii) water and sanitation; (iii) energy; and (iv) education. The indicative financial envelope for SG lending was US\$200 million and US\$5 million was projected for grant funding. By December 2013, total lending reached US\$242 million of which 47.5% was budget support for an ambitious and successful energy sector reform program. Technical cooperation grants reached US\$13 million<sup>4</sup>. The Bank's engagement during that CS focused on addressing main vulnerabilities and social development, and while macroeconomic stability was not a priority area, the CS allowed for its inclusion should the risk materialize.
- 2.3 With the global downturn, the deterioration of Barbados' macroeconomic framework triggered the macro focus for the 2009-2013 CS. The Bank was a significant source of support during the extremely challenging years following the 2008 international financial crisis as it became evident that the principal macroeconomic risk cited in the 2009-2013 CS, "*that of a continued deterioration of [the country's] fiscal position and higher debt/GDP ratios, associated with prolonged economic contraction,*" could affect economic stability unless fundamental reforms were implemented. This supported the move to front load lending from the CS envelope since it was imperative to provide countercyclical support. As such, the Bank front-loaded disbursements with a strong emphasis on budget support operations in the Energy priority area. These were based on urgent needs prompted by, among other things, historically higher oil prices that led to increased interest in energy efficiency, renewable energy and support for energy conservation in general. Consonant with the identification of the risks facing macroeconomic stability, the Bank deepened its dialogue with the country on issues of tax policy, quality and efficiency of public expenditure and advanced technical work in this dialogue area.<sup>5</sup> In agreement with GOB, the Bank also shifted its primary focus to analytical work to support a fiscal reform program, via structural changes in tax expenditure policy. In response to the country's deep economic challenges, the Bank provided 40% additional financing and increased budget support by 60% over projections in the original CS.
- 2.4 Successive fiscal adjustment programs fell short of reaching their targets in terms of containing spending and reducing fiscal and current account deficits. GOB responded by implementing temporary countercyclical measures to sustain economic activity and employment resulting in a marked widening

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<sup>3</sup> Country Assessment of Living Conditions (CALC), Caribbean Development Bank, 2012.

<sup>4</sup> This includes a co-financed operation for a total of US\$7.7 million from the European Union.

<sup>5</sup> BA-T1021, Support for Fiscal Consolidation (US\$300,000).

of the fiscal deficit, and an increase in public sector indebtedness through the execution of a Medium-Term Fiscal Strategy, announced in March 2010. Growth declined and contracted and fiscal deficits were sustained. Within this context, the Bank continued supporting the GOB via a fresh focus on pivotal investment projects that could unlock growth and safeguard the country against exogenous shocks. This was made possible after significantly accelerating the pace of execution of the investment loan portfolio, which was the result of restructuring 25% of its non-performing operations (**see Annex II**).

- 2.5 **Inherited portfolio<sup>6</sup> and achievements to date.** While the overall development impact of the 2009-2013 CS is uncertain, as it is not yet possible to fully report on tangible outcomes due to the prolonged underperformance of the implementation of investment loans, there have been positive advances. Concerted proactive action resulted in total investment portfolio disbursements in 2013 of US\$23.7 million, the third highest investment portfolio disbursement in thirteen years. Actual disbursements in 2014 represented an increase of 32% over 2013 levels (US\$23.7 million), 229% over 2012 levels (US\$9.5 million), 302% over 2011 (US\$7.8 million), and 543% over 2010 (US\$4.5 million), and offset the negative flows of 2012. In parallel, efforts to streamline the portfolio and GOB's commitment to reduce the non-performing loan stock of debt have resulted in agreed cancellations of approximately US\$54 million of undisbursed resources, which resulted in a decrease in the commitment fee paid by the Government per each undisbursed US\$1. An assessment of the tradeoffs indicated that it would have been more technically or financially efficient to cancel operations rather than reformulate them.
- 2.6 Despite challenges with the disbursement record, it is important to highlight the advances achieved thus far. Policy measures supporting Renewable Energy (RE) and Energy Efficiency (EE) have been adopted along with financial instruments such as the Smart Fund to promote RE and EE in the private sector. In addition, the efficiency and financial viability of the Barbados Water Authority has been increased, and coastal risk assessment models and an action plan for their implementation have been completed. Also, coastal infrastructure (a series of groynes, offshore breakwaters, a concrete walkway and beach enhancement), financed through the Hometown Waterfront Improvement Project, is 95% complete. This project aims to improve shoreline stabilization and enhance beaches and public access areas.
- 2.7 As Barbados continues to address fiscal challenges through its 19-month fiscal consolidation program, the Bank will continue providing support to the Government. All priority and dialogue areas directly and indirectly contribute towards achieving fiscal sustainability over the medium term by focusing on reducing the burden on the budget and on enhancing efficiency in public spending. The emphasis on promoting growth in the tradable sectors, like tourism, would contribute to macroeconomic stability by increasing foreign exchange flows and reducing external sector imbalances. This will be carried out in close coordination with the main international agencies involved in fiscal modernization and growth in Barbados, including the International Monetary Fund (IMF), the EU and the CDB. Improvements in the macro framework could deepen the dialogue allowing the country to benefit from a wider range of instruments, modalities, and resources.

### III. BANK STRATEGIC ORIENTATION FOR 2015–2018

- 3.1 The proposed Country Strategy 2015-2018<sup>7</sup> will coincide with the anticipated political cycle and is the result of close consultation with the Government and civil society. The objective of this Strategy is to help restore sustainable growth in Barbados' economy by supporting greater private sector competitiveness and enhancing efficiency in service delivery by the public sector. There will be a focus on foreign currency-earning sectors and mitigation of the risk of external shocks from commodity price spikes, slow recovery of traditional trading partners, natural disasters and the slow onset of climate

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<sup>6</sup> Inherited portfolio refers to projects that were approved under previous Country Strategies.

<sup>7</sup> Although a new Country Strategy was not approved during the transition period in 2014, the project approved that year was aligned with this strategy.

change impacts. The priority sectors are: (i) Tourism; (ii) Transportation and Logistics; (iii) Energy; and (iv) Integrated Coastal Zone Management and Climate Resilience (ICZM).

- 3.2 The CS priority sectors were primarily selected based on their transformative impact on private sector competitiveness, which is essential to unlock growth, and on addressing binding constraints to growth. Promoting greater private sector development and competitiveness will be an integral part for all four priority sectors in this Strategy. The Barbados Growth Diagnostic confirms that greater macroeconomic stability, competitiveness and productivity are essential to achieve higher growth. Therefore, interventions in this CS aim to directly or indirectly address such challenges. The Strategy also aims to contribute to macroeconomic stability by focusing on removing constraints to growth in the tradable sectors which contribute foreign exchange, while lowering energy costs, and mitigating, to the extent possible, the negative impact of natural disasters on economic activity. The approach was informed by analytical work and the significant Bank-financed investments already made in energy and coastal zone management, as well as the recommendations from the last Country Program Evaluation (CPE).
- 3.3 The selection of the sectors reflects areas in which the Bank and GOB can most readily engage to support growth. They have been validated by civil society and the private sector, and are aligned with the GOB's priorities included in the 2013-2020 Barbados Growth and Development Strategy. These priority areas aim to boost output in key sectors, such as tourism, energy and infrastructure, to improve private sector competitiveness. Moreover, efforts to enhance the contribution from non-traditional sectors such as culture and sports, innovation and science, and small and medium-sized enterprises (SMEs) will be pursued<sup>8</sup>. There is also a focus on reducing dependence on fossil fuels, ensuring environmental sustainability and combating climate change. Finally, the CS will contribute to the Bank's goal in the Ninth General Capital Increase (GCI-9) report (AB-2764) of supporting development in small and vulnerable countries by reducing poverty and inequality and promoting sustainable growth. Efforts to facilitate development through the private sector, especially by increasing support for SMEs, are aligned with the GCI-9 strategy that identifies it as an effective tool to unlock growth, create more jobs, and improve the lives of the poor.<sup>9</sup>
- 3.4 The current portfolio consists of operations in sectors that are directly linked to the proposed priority and dialogue areas and address current constraints to both growth and project implementation: competitiveness, education and modernization of procurement and statistics. In addition, more efficient water supply and resource management is sought through the portfolio, which is expected to support the tourism industry and protect the country from climate change through improved availability and quality of drinking water and the protection of the coastline from inadequate sewage treatment.

#### **A. Tourism**

- 3.5 This CS aims to support competitive and sustainable tourism growth in Barbados. The sector continues to be the main driver of the economy and employment. It directly contributes around 12% of GDP through hotels and restaurants but indirectly more than 40%.<sup>10</sup> Barbados has been affected by the global financial crisis and is challenged by declining arrivals and receipts from key source markets. From 2007 to 2013, cruisers and stay over arrivals declined -7.5% and 11.5%, respectively, while tourism receipts fell by 23.3%. The Barbados Hotel and Tourism Association notes that challenges include high costs, mainly for electricity and the quality of hotel infrastructure.

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<sup>8</sup> Investment in human capital is a key part of achieving these goals. Specific skills training could be considered and could be used as part of countercyclical measures to tackle unemployment and smooth consumption.

<sup>9</sup> CS priority areas ICZM and Climate Resilience, as well as Energy respond to the GCI-9 priority to protect the environment, respond to climate change, promote renewable energy, and ensure food security; Transportation and Logistics responds to infrastructure for competitiveness and social welfare; and Tourism responds to competitive regional and global international integration. The dialogue area of Public Sector modernization responds to Institutions for Growth and Welfare.

<sup>10</sup> Tourism directly supports 14,500 jobs or 11.1% of total employment, but indirectly it drives employment across most sectors. Source for tourism contribution to GDP and employment: World Travel and Tourism Council (WTTC). Data have been converted to US\$ from BDS\$. Source for arrivals and receipts: World Tourism Organization (UNWTO).

- 3.6 The Growth Diagnostic identified limited tourism diversification in source markets and competitiveness of the supply as constraints to sector growth. Like other mature tourist destinations, the country is challenged by the need for hotel upgrades, limited airlift and cyclical factors associated with the global economic downturn. With changing costs and new destinations worldwide, tourist arrivals have declined. The GOB is finalizing a Tourism Master Plan and will continue to prioritize the sector in policy decisions, promote the development of competitive and responsible business models and practices, and increase cooperation between the public and private sectors.<sup>11</sup> It granted tax exemptions, waivers and concessions, in return for private investment in facilities, with a view to benefiting from the jobs and indirect contribution to economic activity that would come with these incentives.
- 3.7 The Bank's support will focus on increasing tourism receipts, which is the element that triggers direct, indirect and induced effects on the local economy. The two main challenges in the tourism industry follow:
- (a) Need to diversify both geographical source markets and traveler segments. On one hand, Barbados is heavily dependent on the British and North American markets (70% of total stay-over arrivals). The concentration of tourism inflows from a few countries is considered a source of vulnerability, especially when the source economies experience severe declines in economic activity. The European market (excluding UK) is currently the biggest spender in Barbados, but represents only 8% of total tourist arrivals. On the other hand, cruise passengers account for 49% of total arrivals, but with lower spending per tourist, this segment makes a smaller contribution to economic activity<sup>12</sup>. It is therefore important to diversify the tourism market that is currently concentrated on three countries, to maximize receipts per visitor, and to focus on those markets and demand segments –including cruisers - with the highest potential for growth in visitor per capita expenditure; and
- (b) Improve competitiveness of tourism supply. In this area, three major factors have to be considered: (i) value for money offered by the tourism experience. Barbados is a mature destination that developed its tourism industry much earlier than other Caribbean destinations did. In a highly competitive global market place, Barbados' tourism branding and product is in need of rejuvenation, innovation and upgrading in order to meet the changing expectations of travelers. These aspects would demand greater access to credit to finance investments<sup>13</sup>; (ii) weak linkages between local business and the tourism industry. Recent studies<sup>14</sup> indicate that there is still room to increase linkages between tourism and local manufacturing (especially in the food and beverage sub-sector) and agriculture; and (iii) airlift remains a concern, due to high fares, reduced number of operating lines and inefficient routes and connections.
- 3.8 Capitalizing on efforts already undertaken by Barbados to generate stronger tourism demand and back tourism supply, the Bank can provide support to: (i) diversify tourism products, source markets and traveler segments through a deep understanding of the preferences and determinants of tourism demand and reinforcement of tourism branding and promotion; (ii) achieve specific sub-sectorial value chain analyses and support policy measures to enhance greater linkages between tourism and local businesses, including hotels; and (iii) review policies to support airlift and monitor results of air connectivity with critical traditional and emerging source markets (including Latin America); and (iv) promote greater access to finance.
- 3.9 The main risk associated with Bank intervention in the tourism sector in Barbados is governance in terms of public-private coordination and between government agencies. In order to guarantee that the

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<sup>11</sup> White Paper on the Development of Tourism in Barbados (October 2012).

<sup>12</sup> Ministry of Tourism and International Transport.

<sup>13</sup> World Bank 2010 Enterprise Survey for Barbados prepared by Sir Arthur Lewis Institute of Social and Economic Studies (SALISES), University of the West Indies in 2009, and the 2010 Census.; World Bank (2010). "Enterprise Survey for Barbados". Washington, D.C, and World Economic Forum, The Global Competitiveness Report 2013-2014

<sup>14</sup> Mascoll, (2013), *The Promotion of Greater Inter-Sectoral Linkages with the Tourism Sector in the Barbados Economy*, IDB.

needed partnerships are developed opportunely and successfully during the preparation and execution of a future tourism program supported by the Bank, direct participation of different stakeholders should be enhanced through a mechanism that includes relevant stakeholders for the program, both at the stage of strategic conceptualization and subsequently during program implementation. IDB private sector windows could provide advisory and financing support to enable the creation of PPPs subject to a conducive macroeconomic framework. Other risks relate to the capacity constraints of the Ministry of Tourism and International Transport, which the IDB could address through the implementation of a monitoring and evaluation system for tourism-related projects.

## **B. Transportation and Logistics**

- 3.10 Investments in transportation and logistics are important for Barbados because they come with short term stimulus and raise long term output. In the short term, their positive impact on demand, from raising public investment in labor intensive projects, would help ease the current economic downturn and generate unskilled jobs. Over the long term, these raise infrastructure capital stocks expanding productive capacity while improving the country's competitiveness. Since the 2008 financial crisis, public investment reduced by half from 4 to 2% of GDP annually and will reduce further to 1.5% of GDP during the strategy period. This is taking a toll on the existing road network and on private sector competitiveness. In keeping with existing Government plans, future ventures could be geared towards private sector-led initiatives, as outlined in the Barbados Growth and Development Strategy 2013-2020. Participation of local financial institutions in the provision of credit for new productive infrastructure and services will have to be encouraged. Proposed activities in this priority area will therefore support upgrades and improvements to key infrastructure, while boosting the tourism sector and stimulating employment.
- 3.11 One of the challenges with **maritime logistics** faced by small and medium-sized enterprises is that of attaining economies of scale and scope to frequently ship whole containers. Shipments in the Caribbean are typically of the Less-than Container Load (LCL) type, which requires additional handling and costs (from shipping or maritime companies to consolidate or deconsolidate loads). The second challenge is the low degree of maritime connectivity, reflected in Barbados' low Liner Shipping Connectivity Index<sup>15</sup> in both absolute terms and when compared to other LAC countries. Additionally, larger ships with larger transshipment volumes that will now be able to use the expanded Panama Canal are expected to bring substantial changes to maritime transport in the region. Barbados may take advantage of these opportunities by increasing its efficiency and developing logistics and value added for intra-regional services.
- 3.12 **Air Connectivity** is also a challenge for Barbados and most other Caribbean countries that rely on air transport for intra-regional and international connectivity, particularly to support tourism as a key economic activity, in comparison with larger countries that can rely on greater resource bases and markets to drive economic growth. The sector in Barbados is characterized by long domestic times to export, limited customs operating hours, or low LSCI or Air Connectivity Index<sup>16</sup> values when compared with more export-oriented countries.
- 3.13 In terms of **road transport**, according to the Ministry of Transport and Works (MTW) estimates, 30% of the country's 1,600 km paved road network is in need of corrective maintenance or rehabilitation. The situation is aggravated by extreme weather patterns that are typical for the region. It would be necessary to introduce sustainable financing mechanisms to provide additional funds for road

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<sup>15</sup> The Liner Shipping Connectivity Index (LSCI) combines the number of ships, their total container capacity, the maximum vessel size, and the number of services and shipping companies calling in the country as a measure of transport connectivity. The 2013 edition of the LSCI was calculated for 157 countries. The LSCI for Barbados is 5.18 and the country is ranked 122 of 157 countries, compared to Trinidad and Tobago with 17.26 (ranked 69), Jamaica with 25.32 (ranked 52), the Dominican Republic with 25.57 (ranked 51) and the US with 92.8 (ranked 6).

<sup>16</sup> Based on network analysis theories, the Air Connectivity Index (ACI) estimates the extent to which a country is connected to the international air transport network given the number of connections from each country.

maintenance or rehabilitation as previously available public funds for this purpose have been reduced significantly<sup>17</sup>.

- 3.14 The main strategic area of intervention proposed for the transportation sector in Barbados is freight logistics and services, to provide a platform for increasing connectivity and promoting a multimodal perspective of the flow of goods and people. Actions may include investment in upgrading and improving key productive infrastructure, such as logistics facilities and distribution networks (e.g., the rehabilitation of the road network), aimed at reducing transport costs. Technical cooperation resources will be sought for activities related to logistics and sustainable transport. Efforts in leveraging private funds will be sought during the CS period as a vehicle for developing more projects and promoting the use of innovative private financing mechanisms for investment in infrastructure and services.
- 3.15 The risks associated with the proposed interventions are mainly related to: (i) limited joint experience working in the local environment on infrastructure projects in this sector; (ii) the lack of comprehensive transport policies and an institutional framework for transportation services beyond the provision of infrastructure; (iii) the lack of sufficient qualitative data due to limited studies conducted in this sector; (iv) the formulation of national projects with no prospects for regional application; and (v) the lack of private sector investment in this area. All of these risks will be mitigated through projects that facilitate institutional strengthening, capacity building, comprehensive studies and knowledge transfer. The Bank is currently supporting private sector development through initiatives such as Compete Caribbean. Furthermore, it would improve project formulation through its experience in the Caribbean and its expertise in trade, logistics and regional integration.

### **C. Energy**

- 3.16 Interventions in the energy sector not only have a positive impact on competitiveness, but also affect macro stability and growth. The Growth Diagnostic found that high and variable energy costs are a factor hindering economic activity in Barbados. Nearly 50% of local businesses report that electricity is a major constraint to doing business, mostly due to high and volatile tariffs. The electricity bill accounts for 15% of average monthly income for low-income households.<sup>18</sup> Dependence on oil products for 90% of energy needs, coupled with high and volatile energy prices have accentuated the country's macroeconomic vulnerability. Since all refined oil products are imported they have a negative effect on the trade balance and put pressure on the current account. This dependence makes the economy highly vulnerable to changes in international oil prices. In 2012, Barbados spent US\$398 million on oil imports or 9.4% of GDP, a significant increase over the 2009 oil import bill of US\$255 million and mostly from international price fluctuations.
- 3.17 The Government's priorities in the Energy sector are to reduce energy costs, and promote renewable energy and energy efficiency to drive economic growth and competitiveness. As such, Barbados has been a frontrunner in implementing a sustainable energy policy framework to promote EE and RE in both the public and private sectors (including SMEs). Over the CS period, the focus will be on improving EE, promoting diversification of energy sources and expanding the use of RE. This includes: (i) continued support for the policy reform process to help Barbados complete and implement policy, legal, and regulatory frameworks for electricity; (ii) support for RE generation, Energy Storage, RE for Transportation and EE projects implemented both in the public and private sectors; (iii) efficient use of fossil fuels, including the importation of natural gas for power generation as well as refurbishing existing outdated thermal power generation units; and (iv) strengthening institutional capacity, improving skills of the labor force, providing training for professionals in the energy sector, and

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<sup>17</sup> MTW indicates that resources for road works were reduced from around US\$70M in 2009/10 to US\$30M in 2013/14.

<sup>18</sup> The Barbados Light & Power Company Limited is an investor-owned electric utility company. While there are no subsidies for electricity consumption for domestic or commercial users in Barbados, commercial users pay a slightly higher tariff that is used to cross-subsidize rates for domestic users. There are four types of tariffs: (i) Domestic Service, (ii) General Service, (iii) Secondary Voltage Power (SVP), and (iv) Large Power.

fostering an enabling environment for entrepreneurs and private sector investors to deploy energy investments. This focus will complement regional Bank initiatives underway to reduce the Caribbean's dependence on imported liquid fossil fuels, e.g., regional initiatives to explore the possibility of supplying natural gas<sup>19</sup> by boat or pipeline.

- 3.18 Barbados' electricity tariffs are still high, at US\$0.34 per kWh in 2013.<sup>20</sup> This is due to the high cost of fuel oil used for nearly all electricity generation. Almost 50% of the tariff is fuel cost, which is passed to the final consumer.<sup>21</sup> It is particularly this segment of the tariff structure that could be reduced by diversifying the energy matrix with the introduction of RE (large and small scale), Energy Storage, EE measures and efficient use of fossil fuels (i.e., including replacement of inefficient generation capacity and introducing natural gas in the medium to long term). By doing so, monthly electricity bills could be reduced by 40%-50%.
- 3.19 The Government has taken concrete steps towards accomplishing its goals in the Energy sector, but long-term success will depend on GOB's capacity to attract investment in the area and ongoing electricity sector reform. Since 2009, the IDB has supported GOB with the implementation of a Sustainable Energy Framework for Barbados, through a package of policy-based lending, technical assistance programs and investment loans. On the policy reform process, there has been significant progress towards a policy framework that promotes sustainable energy. The Electric Light and Power Act passed at the end of 2013, was an important step towards increasing the use of renewable generation. Achieving what that law promises will require effective implementation and regulation, especially by the Fair Trading Commission. GOB and regulators will also have to ensure that changes in the regulatory structure of the electricity sector do not upset its stability and efficiency.
- 3.20 The Government has taken the initial steps to further assess options for the importation of natural gas. IDB studies have shown that given current gas prices, Liquefied Natural Gas (LNG) could be an option for many Caribbean nations, including Barbados. However, due to the high upfront cost, an LNG terminal could only materialize if there were sufficient demand. Therefore, bundling the procurement of natural gas with other small Caribbean nations in order to create economies of scale through Public Private Partnerships is a possible way forward to adopt this cleaner fuel.
- 3.21 Principal risks identified relate to (i) Policy and regulation as well as (ii) Capacity building and institutional strengthening. Policy and regulation - Through small but meaningful steps, the GOB is achieving the action lines recommended in the National Sustainable Energy Policy. There is full commitment across the political spectrum in Barbados to move away from liquid fossil fuels, and as such the risk of inaction is very low. In terms of regulation, the GOB has passed a law that will enable third party generation using large scale renewable energy. In addition, policy has been developed to deploy distributed generation (small scale) renewable energy connected to the grid, particularly solar energy. Capacity building and institutional strengthening - This is a preponderant risk that could become a significant bottleneck for successful deployment of sustainable energy. The GOB needs to provide (or allocate<sup>22</sup> through external funding) skilled human resources in order to mitigate this risk. The upgrade of skills, availability of qualified staff and permanent training are key factors for the success of the program.

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<sup>19</sup> Refer "Natural Gas in the Caribbean – Feasibility Studies" (RG-T2243), financed with US\$1 million of resources from the Fund for the Financing of Technical Cooperation for Initiatives for Regional Infrastructure Integration.

<sup>20</sup> The Barbados Light & Power utility company is 80% owned by the Canadian company Emera Inc., 13% of its holdings are under the NIS, while 7% is owned by small shareholders.

<sup>21</sup> The diesel subsidy, which was discontinued in April 2014, provided direct price support for consumption at 0.23 cents per liter for the manufacturing, agriculture and fisheries sectors, as well as 0.08 cents per liter for public transportation.

<sup>22</sup> There are several energy loans with earmarked funding to hire staff. However, due to human resources regulations, the hiring of new personnel is both complicated and slow, therefore potentially jeopardizing the outcome of energy projects.

## **D. Integrated Coastal Zone Management and Climate Resilience**

- 3.22 Barbados relies on coastal tourism for most of its foreign exchange earnings, employment and growth. Given its vulnerability to natural disasters and climate change, focusing on mitigating the negative impact of natural events on the tourism sector, is important to sustain growth and ease pressures on public finances.
- 3.23 The Barbados integrated coastal zone management program is one of the first to be implemented in a developing country, it is the most comprehensive in the Caribbean, and is considered a regional best practice.<sup>23</sup> As a result, recognizing the above, and the value added of the Bank's expertise that has supported the sector since the early 1980s with positive results to date, continued IDB interventions in this area are critical in maintaining the health and prosperity of the coastal environment in Barbados. During the new CS cycle, the Bank will continue ongoing interventions and expand support for risk-based coastal planning, long-term shoreline protection and beach enhancement, including the use of hazard-resilient coastal infrastructure and ecosystems-based adaptation measures.
- 3.24 The main challenges in the sector to be addressed in the short to medium term with a view to increasing coastal resilience include: (a) assessment and valuation of coastal and marine ecosystem services for ICZM; (b) the need for innovation in engineering for coastal resilience; (c) financial sustainability of coastal investments; and (d) coastal risk governance at the national and local levels. Initiatives will build on the Government's IDB-financed comprehensive Coastal Infrastructure Program (CIP), which continues to demonstrate success<sup>24</sup> and innovation in ICZM and the Coastal Risk Assessment and Management Program currently under execution.
- 3.25 The principal risks to the implementation of the proposed interventions are: (i) Lack of inter-institutional coordination, (ii) Limited private sector interest in investing in coastal management and (iii) Delayed implementation of the proposed interventions. Lack of inter-institutional coordination - To mitigate this risk, an information sharing policy and communication strategy on coastal risk management will be developed and implemented under the Coastal Risk Assessment and Management Program (CRMP), and is expected to strengthen coordination between the Coastal Zone Management Unit (CZMU) and its strategic partners. Limited private sector interest in investing in coastal management - As the tourism private sector has already shown interest in investing in coastal protection in Barbados, this risk will be mitigated through targeted sensitization of the private sector to be delivered under the CRMP as well as the proposed interventions. Delayed implementation of the proposed interventions due to (a) project management capacity; and (b) delays in attaining program eligibility - To mitigate this risk, as part of the CRMP, CZMU staff members are receiving training and support in project management with the goal of enhancing the Unit's capacity in this area and providing continuity for the proposed interventions.

## **E. Cross-Cutting Theme: Gender**

- 3.26 The mainstreaming of gender perspectives to promote gender equality and empowerment in sustainable development will be a preponderant cross-cutting theme. Gender mainstreaming will be applied to the priority sectors outlined in the CS in response to a series of challenges around gender equality for these sectors, including access to services, employment opportunities, and reduction of pay gaps. The Bank will also provide strategic direction on seamlessly incorporating gender into its dialogue areas as well as

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<sup>23</sup> IDB (2010: Paragraph 1.7); Lemay et al (2011).

<sup>24</sup> To date there have been demonstrable results in the following, among others: (i) The Rockley to Coconut Court Waterfront Improvement Project (Rockley Boardwalk) on the south coast and the Holetown Beach Improvement Project (Holetown) on the west coast, which created a total of 3.5 km of continuous safe public beach access along the shoreline; (ii) Shoreline stabilization and erosion control works at Rockley and Holetown together increased the number of person-days of shoreline leisure and recreational use, as a direct result of the increased amenities and access that these projects provided. The impact this additional traffic has had on local business and revitalizing the surrounding real estate market cannot be overstated; and (iii) increased capacity at the Government's Coastal Zone Management Unit and innovative coastal management support. Through the CIP, CZMU staff was trained in numerical and physical modeling, the use of Geographical Information Systems and 3D modeling as well as in construction management.

in ongoing interventions in the inherited portfolio, including recommended specific actions and investments for mainstreaming gender in Barbados.

- 3.27 One of the biggest anchors for this area is that GOB has invested in a multi-sectoral National Gender Policy. As such, gender mainstreaming is already a national priority, which will require significant technical and financial support for implementation across all sectors. Barbados' plan is in line with commitments under the "Convention on Elimination of All Forms of Discrimination Against Women" and the Convention of Belem do Pará<sup>25</sup>. Moreover, many Ministries have already endeavored to support gender mainstreaming initiatives. For example, the Ministry of Labour, Social Security and Human Resource Development has undergone a gender audit with the International Labour Organization and the Organization of American States and is working on anti-discrimination legislation that will provide a mechanism to address any gender-based discrimination with respect to termination of employment.

#### **F. Dialogue Areas**

- 3.28 Complementing the agreed priority areas and feedback received from civil society, the private sector, and the CPE, the Bank will seek to strengthen strategic dialogue in the areas below.
- 3.29 **Public Sector Modernization** will continue with the goal of supporting GOB's fiscal adjustment program in key identified areas and building on previous technical cooperation already undertaken by the Bank at the request of the Government. Future requests for additional support could be anticipated as the scope of work in this area deepens, and could include tax expenditure budget, tax incidence, state-owned enterprises, pensions and cash flow management. Likewise, future support could include modernization of data collection and statistical production into a Government-wide system for the use of information to enhance efficient and transparent decision making. The Bank will also aim to support efforts to improve the efficiency and transparency in the provision of government services with special focus on those that are key to promoting sustainable economic growth. Such efforts build upon the opportunities offered by information and communication technologies and facilitate citizen participation. This area makes an important contribution to greater macroeconomic stability in Barbados, a binding constraint to growth identified in the Growth Diagnostic, by easing the burden on public finances and promoting greater efficiency in public spending.
- 3.30 **Social Protection and Labor Markets** is an area in which the Bank could provide timely and significant value added to Government's efforts to efficiently provide citizens with a fair and progressive social safety net, including training and active labor policies, given the need to achieve macroeconomic sustainability. Given the IDB's experience with social safety net programs in Latin America, the Government is seeking to use this experience to protect vulnerable groups while allowing for optimized complementarity between its growth and macroeconomic stability strategies. Interventions will also seek to strengthen the capacity to implement active labor market programs.
- 3.31 On a regional level, the Bank's strategic agenda for integration would encompass initiatives in transport, primarily air transport, and trade facilitation in goods and services, with a focus on tourism with non-traditional partners. Dialogue will also continue to address the slow-disbursing portfolio (see **Annex VI**).

### **IV. LENDING FRAMEWORK**

- 4.1 The financing needs of the Government for the CS 2015-2018 period exceed US\$1.5 billion, of which 25% is expected to come from external sources. Given the existing macroeconomic framework, in particular the high debt and the low level of disbursements in the past, there is currently a high level of uncertainty on the lending framework and programming for Barbados during the Strategy period. The Bank will focus programming on interventions that stimulate economic growth in line with government

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<sup>25</sup> The Inter-American Convention on the Prevention, Punishment and Eradication of Violence against Women.

priorities and that can be implemented more efficiently than in the past to achieve the desired development impact. An indicative scenario for sovereign guaranteed financing of US\$200 million<sup>26</sup> for the period of this Strategy is proposed. The pace and size of the investments will consider absorptive capacity and factors that could contribute to significant progress in terms of execution. It is expected that this indicative scenario would meet 20% of the financing needs of the Government's public sector investment program (see **Annex III**). The indicative financial envelope may be increased if the sustained improvement in the execution of the investment loan portfolio is maintained, with annual disbursement of at least 12.7% of the undisbursed SG loan balance at the beginning of the year<sup>27</sup>. Annual approval amounts would be discussed within the context of the Bank's annual programming exercise. Estimated annual average approvals of US\$40 million and annual average disbursements of US\$36 million<sup>28</sup> will maintain the IDB's share of Barbados' total multilateral debt. During the Strategy period, the Bank's lending to Barbados would maintain the stock levels at about 6% of GDP and 16.1% of external debt. Provided that the high level of portfolio disbursements is sustained, net capital flows are projected to be positive during the strategy period.

- 4.2 Financial support from the Bank would be closely coordinated with partners such as the IMF, CDB and EU to contribute to current donor coordination efforts with a view to minimizing overlap and avoiding duplication. To the extent possible, co-financing options will be explored to both leverage grant resources to improve the concessionality of loan operations (e.g., the Co-Financing for Renewable Energy and Energy Efficiency (CORE) Program established by the IDB and the Japan International Cooperation Agency (JICA); and the EU's Caribbean Investment Facility) and/or supplement IDB financing with loans on comparable terms from IDB co-financing partners (e.g., China Co-Financing Fund for Latin America and the Caribbean).

## V. STRATEGY IMPLEMENTATION

### A. Efforts to boost greater engagement with the private sector

- 5.1 More in-depth involvement of the Bank's non-sovereign guaranteed windows will be sought to create synergies with public sector operations and stimulate origination. The focus of this Strategy is aligned with current IDB private sector business lines for the Caribbean region as it relates to opportunities for investment in energy and energy efficiency (third party generation projects; integrated liquefied natural gas; energy storage and sustainable market ecosystem for energy saving investments; credit facilities for EE projects), Public Private Partnerships (support for institutional capacity and implementation), value chains in tourism (hotel infrastructure upgrade with links to the local economy; air bridge to new markets and tourism base diversification); and women's entrepreneurship (greater credit access to female business owners).
- 5.2 As part of the engagement with the private sector, support for SMEs will continue, in particular by promoting greater access to finance,<sup>29</sup> which has been identified as one of the key challenging factors for private firms doing business in Barbados<sup>30</sup>. Access to finance is particularly difficult because the

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<sup>26</sup> This indicative figure includes programming in 2014, which was the transition period between the previous CS from 2009-2013 and the current CS 2015-2018.

<sup>27</sup> Assessments of the indicative financial envelope would consider the level of disbursements from the preceding year. The level of disbursement should reflect acceleration in the execution of the investment portfolio and would be considered along with demonstrated improvements in institutional capacity, the increased use of country systems for procurement and public financial management, and alignment with the Government's national priorities and the Budget.

<sup>28</sup> Estimated annual approvals are in line with the annual investment loan approval average (US\$39 million) during the last Country Strategy period (2009-2013). Estimated annual disbursements are consistent with the recent improvement in investment portfolio disbursements (US\$23.7 million and US\$31.3 million in 2013 and 2014 respectively) and with the principles to be followed for project readiness and design to ensure a faster disbursement pace than in the past.

<sup>29</sup> World Bank 2010 Enterprise Survey for Barbados prepared by Sir Arthur Lewis Institute of Social and Economic Studies (SALISES), University of the West Indies in 2009, and the 2010 Census.

<sup>30</sup> World Bank (2010). "Enterprise Survey for Barbados". Washington, D.C, and World Economic Forum, The Global Competitiveness Report 2013-2014.

banking system compensated risk aversion with higher collateral requirements for lending operations.<sup>31</sup> In line with Government's ongoing efforts to promote access to finance for small business<sup>32</sup>, the Bank will provide support to efficiently use public resources to incentivize access to credit and private investments into transformational projects by SMEs, such as renewable energy, energy efficiency and tourism. The Bank could support the GOB in the design of specific "second tier" financing vehicles (such as guarantees, special credit lines or syndicated funds) allowing Local Financial Institutions (LFIs) to extend investment credit to SMEs.

## **B. Efforts to Strengthen Execution**

- 5.3 The Bank will continue to support policy formulation designed to mitigate the vulnerability of Barbados to external shocks and natural disasters and the implementation of the GOB's economic reform program. Initial SG engagement will include focus on investment operations to boost growth and social protection, while continuing to develop the technical underpinnings of the macroeconomic reform program. A significant improvement in the execution of the investment loan portfolio will require continued implementation of operational changes started in the previous CS cycle. The practice of creating specialized executing agencies did not bring the expected efficiencies and has been a hindrance to implementation due to the limited pool of qualified public servants. These inefficiencies as well as other systemic and capacity constraints were openly recognized by both the GOB and the Bank and led to the development of an Action Plan in 2012 to support improved implementation (see **Annex VI**). GOB has agreed that any new investment operation would have to fulfill all of the following: (i) all final designs must be complete and accepted by both the GOB and the Bank prior to loan approval; (ii) Project Execution Units will be established only when necessary and, where possible, certain project execution activities, like fiduciary and procurement functions, will be outsourced to a non-public entity that specializes in project management<sup>33</sup>; (iii) all licenses, permits and land acquisition have to be completed prior to loan approval; (iv) the procurement process for at least 20% of the project should be ready to be launched immediately after loan approval; and (v) fiscal space will have been approved in the annual budget to accommodate the projected implementation plan. These five principles, included in the aforementioned 2012 Action Plan, aim to streamline the portfolio, optimize project design, improve project execution, and strengthen the institutional framework of the Government to execute projects. The Bank has been providing continuous support to improve institutional capacity through initiatives to enhance project management both at general and sector-specific levels. The Bank has also integrated and mapped both IDB and GOB project life cycles and procurement processes in order to support better project design and increase efficiency during project implementation.
- 5.4 Barbados' economy would benefit from higher levels of private sector investment, particularly in areas that provide foreign exchange earnings and reduce levels of dollar-based imports. In accordance with the business areas highlighted in the private sector development dialogue area, engagement will be increased by: (i) building on MIF and IIC operations tailored to SMEs; (ii) adapting available instruments to local private sector needs; (iii) sensitizing private sector stakeholders, such as business support organizations and financial institutions; and (iv) developing programs to increase private sector capacity and enable them to access additional credit.

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<sup>31</sup> The ability to provide collateral was considered as the main barrier to SME access to credit in Barbados. World Bank and SALISES data shows that, despite the loan size that SMEs received in 2009/2010, the value of collateral in relation to the value of the loans shows a range in the median from 133% to 154% with an overall mean of 145%. Independently, a survey undertaken by IDB with 94 SMEs confirmed the overall perception that excessive collateral requirements are the main barrier to access credit.

<sup>32</sup> Lindsay Holder, Clyde Mascoll, 2013. "A Policy Framework to Incentivize the Micro Business Sector in Barbados", The Barbados Private Sector Association.

<sup>33</sup> This approach is expected to yield both short-term efficiencies and long-term benefits for institutional capacity of the state given that the respective line Ministry will continue to have technical oversight of the project and will therefore benefit from capacity building.

### C. Use and Strengthening of Country Systems

- 5.5 Consistent with the Bank’s strategy for the use and strengthening of country systems (GN-2538), the following financial management subsystems validated for use are being relied on for the execution and supervision of projects: Budget, Treasury and External Control. During the CS period, the Bank will continue to provide support to country systems strengthening initiatives mainly in the areas of public procurement and external audit through funding from the loan 2099/OC-BA - *Modernization of the Barbados National Procurement System*. Through this loan, it is expected that a new Public Procurement Bill will be enacted, and measures introduced to facilitate improvement in the effectiveness of public procurement. Support will also be provided to the Barbados Audit Office to improve its institutional and information technology capacity.
- 5.6 Initiatives to strengthen the external audit and budget classification systems are expected to lead to a reduction in the transaction cost of projects, improvement in the management and oversight of public resources, and an enhancement of the overall quality of the public financial management system. This will facilitate an increase in the use of and reliance on country systems for Bank-funded projects in the areas of external audit, budget, accounting and reporting.

Use of Country systems <sup>34</sup>	Baseline 2015	Estimated Use 2018	Foreseen actions
<b>Financial Management</b>			
Budget	100%	100%	Support to the Government regarding the enhancement of the budget classification system so that it is better able to support project management, reporting and monitoring.
Treasury	100%	100%	None
Accounting and Reporting <sup>35</sup>	10%	20%	Support to the Government regarding the enhancement of the accounting and reporting system to better facilitate project management, reporting and monitoring. This is directly linked to the support regarding enhancement to the budget classification for projects.
Internal Audit	0%	0%	None
External Control	30%	50%	Support to the Office of the Auditor-General, particularly in capacity building of staff and development of an audit management software.
<b>Procurement</b>			
National Informative System	0%	0%	It is expected that once the new legislation is enacted, there will be improvements in procurement institutional capacity and infrastructure (e.g., establishment of a procurement website; development of an e-procurement system and related training; establishment and staffing of the new Government Procurement Department; training in the new legislation for government entities; and establishment of a curriculum and an associate’s degree program.
Shopping	0%	0%	
Contracting of Individual Consultants	0%	0%	
NCB partial	0%	0%	
NCB advanced	0%	0%	

### D. Coordination with Other Development Partners

- 5.7 The Bank works closely with a number of bilateral and multilateral donors active in Barbados in areas such as water, education, energy, private sector development, youth, citizen security, and public financial management. Although these donors have offices in Barbados, only the CDB, EU and IDB have national programs (see Annex V). All other donors have regional programs that benefit several Caribbean countries, including Barbados. The orientation of the CS is aligned with the CDB’s approach to the provision of budget support based on improved macroeconomic conditions, and complements the approval of the National Indicative Programmes for the 11th European Development Fund, which identifies Energy as a priority sector for Barbados<sup>36</sup>.

<sup>34</sup> Percentage of the Bank’s active portfolio of loans that is managed through national systems.

<sup>35</sup> These subsystems (Accounting and reporting and Internal Control) are not using the country systems. However, there is a PBL that represents 13% of the projects financed by the Bank.

<sup>36</sup> The EU expects to invest approximately €49 million to build capacity through the Human Resource Development Programme.

- 5.8 IDB, CDB, EU and USAID collaborate in the education sector, where current dialogue with USAID could lead to an agreement to increase the number of secondary schools that will implement the *A Ganar* methodology. In energy, the EU and IDB are co-financing the Barbados Public Sector Smart Energy Program. Also, the Japan International Cooperation Agency (JICA) and the IDB established the Co-Financing for Renewable Energy and Energy Efficiency (CORE) Program to support the mitigation of climate change in Central America and the Caribbean. Barbados may be able to access CORE during the CS period when Japan's eligibility criteria for accessing Official Development Assistance (ODA) based on per capita income are modified to consider factors such as vulnerability. In private sector development, partnership continues with DfID, Foreign Affairs, Trade and Development Canada (DFATD) and the CDB on the Compete Caribbean Program (CCP)<sup>37</sup>. In fiscal consolidation, close coordination with the IMF continues. Also, the IDB and IMF's CARTAC have agreed to collaborate on Barbados' public financial management assessment using the Public Expenditure and Financial Accountability performance measurement framework, sponsored by CARTAC and IDB and finalized in March 2014.
- 5.9 The EU's Caribbean Investment Facility (CIF) was launched in March 2013 to support projects that consider infrastructure in key areas of transport, water and sanitation, energy, disaster prevention, SME development and environmental protection, among others. These elements are well aligned with the focus of this Country Strategy and the CIF is viewed as a well-placed source of financing to leverage IDB resources and complement project outcomes.
- 5.10 A mechanism to provide Regional PPP Advisory Services is currently being established within the CDB, in collaboration with the IDB and WB, to develop technical capacity in the region and establish the necessary institutional architecture. This mechanism is expected to support the development of a pipeline of viable, bankable, PPP projects in Barbados and the region.

## VI. RISKS

- 6.1 **Macroeconomic and Political Risks:** Barbados faces macroeconomic risks at the outset of the Strategy period. As such, budget support operations are not contemplated at the outset of the CS period. The country has been facing high fiscal deficits, at 12.3% of GDP in FY 2013/14, which have led to a rapid accumulation of public debt and exceeded projected targets in the past. The size of the deficits and the country's high level of public debt (at above 130% of GDP when including NIS holdings) are a constraint to growth and a risk. Over the past 3 years, the composition has changed towards greater reliance on domestic and short-term borrowing. In addition, the Government borrowed from external sources at commercial rates to stabilize its reserves position. With limited fiscal space, Barbados is highly vulnerable to negative shocks (interest rates, prices, or external shocks). A weak external environment and modest growth in its main trading partners, the UK, USA and Canada, is a risk for the tourism sector and overall output. However, the growth outlook for these countries is positive suggesting a gradual recovery over the CS period. In this context, fiscal consolidation is important and an improvement of the country's macroeconomic framework would open the dialogue for budget support in the future. The risk could be partially offset with successful implementation of a policy program that is effective in reducing public spending through public sector retrenchment and lower subsidies and transfers, as well as revenue measures to contain financing needs and achieve fiscal sustainability over time. The strategy would inform the fiscal consolidation process with analytical work promoting revenue generation and greater efficiency in public spending.
- 6.2 **Capacity to secure donor resources:** Barbados' classification as an upper-middle income country presents challenges to obtaining financial grants and other support from agencies that use per capita income as a benchmark for providing development assistance. This risk will be monitored and

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<sup>37</sup> The CCP stimulates private sector development by providing technical assistance that: (1) stimulates private sector innovation within firms and/or groups of firms/value chains; (2) enables governments to improve the business climate and foster competitiveness; and (3) generates data and knowledge on the state of private sector development in the CARIFORUM region.

mitigated by the Bank providing technical assistance (TA) in coordination with other development agencies that are active in Barbados and may imply that the Bank would support initiatives that are not supported by other multilateral agencies. TA would focus on supporting the CS priority areas, as well as strategic interventions to promote the Bank's regional integration initiatives in keeping with GCI-9. Moreover, Barbados' income per capita has fallen by 5% from 2008-2013, and unemployment continues to rise.<sup>38</sup> The country's vulnerability to exogenous shocks is also rising, thus strongly suggesting a need for Bank support. Finally, with Japan's announcement that its eligibility criteria for accessing ODA based on per capita income would be reviewed to consider aspects such as vulnerability, there could be new possibilities for Barbados to access more donor support during the CS period.

- 6.3 **Existing Portfolio execution:** Structural impediments affect the timely execution of investment operations. Annual disbursements for investment loans, as a percentage of the undisbursed balance, averaged 4% from 2010-2012, but were increased to 33% in 2014. Combined with the cancelation of US\$54M of non-performing loans, this demonstrated the seriousness with which the Government is tackling the stock of debt locked up in chronically under-performing projects. This action is unprecedented in the Caribbean. The Bank will continue the dialogue with the Government to take similar actions, where possible, to address the slow-disbursing portfolio and avoid payment of commitment fees on under-performing loans at a time of increased fiscal pressure.
- 6.4 **Disaster risk management and Climate Change Adaptation:** A significant natural disaster could derail the fiscal consolidation program since Barbados has insured only a small fraction of the total assets at risk. The Bank will continue to support the country in strengthening its institutional and regulatory framework for comprehensive disaster risk management as well as the implementation of measures to reduce disaster risk and adapt to climate change.
- 6.5 **Changes in International Oil Prices:** Given that Barbados imports 90% of its energy needs, the country faces significant risk from wide fluctuations in oil prices and the high cost of that energy source (both in terms of per kilowatt hour costs and the amount of foreign exchange earnings needed to obtain it). This will be mitigated by increasing diversification of the energy mix to include more renewable sources and exploring the scope for using other more efficient fossil fuels. Furthermore, the country has been implementing a sustainable energy policy framework to promote energy efficiency in both the public and private sectors (including SMEs).
- 6.6 **Changes in Tourism Demand:** Tourism growth and spending are the main drivers of economic growth in Barbados. The failure of efforts to diversify and to make it more competitive is a risk during the CS period. This risk can be mitigated by focusing on a wider range of products, source markets and traveler segments enhancement of linkages between tourism and local businesses, and support for air connectivity from traditional and emerging source markets.

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<sup>38</sup> Per capita income fell from US\$14,300 in 2008 to US\$13,600 in 2013, Barbados Statistical Service.

### Barbados: Selected Indicators

	2009	2010	2011	2012	2013	2014F
(Annual percentage changes, unless otherwise indicated)						
<b>Real Sector</b>						
Real GDP	-4.1	0.3	0.8	0.3	0.3	-0.6
Nominal GDP	0.2	-3.4	-2.0	-1.0	-0.8	1.6
Inflation (end of period)	3.6	5.8	9.4	4.5	1.8	1.9
Unemployment	10.0	10.3	11.2	11.5	11.6	13.2
<b>External Sector</b>						
Exports of goods and services (% change)	-13.7	14.0	8.7	4.3	-3.2	3.0
Imports of goods and services (% change)	-23.4	7.8	16.6	-7.6	-0.3	-2.6
Current account (percent of GDP)	-6.8	-5.8	-12.8	-9.5	-10.4	-9.6
International reserves (USD mill)	738.7	711.9	707.4	728.9	572.1	488.7
International reserves cover (weeks)	20.9	18.3	17.7	19.9	15.6	13.4
(In percentage of GDP, unless otherwise indicated, on a fiscal year basis)						
<b>Public Sector</b>						
Central government current expenditure	30.6	32.9	32.2	36.4	35.3	n.a
Central government capital expenditure	1.9	1.5	1.4	1.4	2.0	n.a
Central government primary balance	-2.5	-3.0	1.6	-2.0	-5.1	n.a
Central government overall balance	-7.2	-8.7	-4.4	-8.8	-12.3	n.a
<b>Debt Indicators</b>						
General government debt	63.2	72.0	77.8	85.7	97.6	99.5
General government debt(inclusive of NIS holdings)	83.5	96.9	105.0	116.5	131.6	n.a
Central government debt over revenues	249.6	280.0	266.5	294.7	390.1	n.a
External public debt (end of period)	28.6	34.2	35.1	34.9	27.5	n.a
External debt service as percentage of exports of goods and services	7.0	16.7	6.6	6.9	6.6	n.a

Note: (F) Forecast numbers for 2014.

Source: Central Bank of Barbados, International Monetary Fund World Economic Outlook April 2014.

## MACROECONOMIC CONTEXT

**Barbados faces a subdued growth outlook.** Since the 2008 financial crisis, the country has seen low and negative real economic growth averaging -0.5% annually over the past 5 years. For the first nine months of 2014, output remained flat when compared with marginal growth of 0.8% registered a year earlier. The tourism industry, which is the backbone of the Barbados economy, is facing dampened demand and suffering from fewer arrivals and lower spending per tourist. Nonetheless, with the provision of strong incentives to promote large, private tourism-related capital projects, economic activity may pick up in the medium-term.

**The deteriorating fiscal position and weak macroeconomic context pose the main risk to the Strategy.** In an environment of low growth, the country's high level of public debt and its composition is a risk (see discussion below). With limited fiscal space, Barbados is highly vulnerable to negative shocks (interest rates, prices or external shocks). Efforts to boost growth, increase private investment, and protect vulnerable groups would founder unless macroeconomic stability is restored. The Government launched a 19-month fiscal consolidation program that aims to stabilize and reverse the increasing trend in public debt, which will come to a close in April 2016.<sup>1</sup> The IMF's Article IV 2013 suggests that fiscal measures, if fully implemented, could stabilize debt levels by 2016. However, downside risks and delays in the implementation of corrective policies could undermine the adjustment process. Even with full implementation of the stabilization program, financing pressures and external sector sustainability would remain challenging. (Box. 1) Fiscal consolidation alone is insufficient for unlocking growth and Barbados is facing a major challenge to its development path. Therefore, efforts to diversify the economy and increase productivity are of paramount importance. With a slim majority in Parliament, the Government has limited political space to legislate structural reforms. This risk may be mitigated, to some extent, by Barbados' historical success in forging effective social and political consensus to face economic challenges.

### **Box 1. Barbados Fiscal Consolidation Program and Fiscal Impact**

A 19-month adjustment program was announced by the Minister of Finance and Economic Affairs during the presentation of the Financial Statement and Budgetary Proposals in August 2013. It focuses on reducing public spending through public sector retrenchment and lower subsidies and transfers, as well as revenue measures to contain the country's financing needs. The objective is to promote macro stability by addressing the decline in international reserves, rising levels of public debt, and low growth. Initially, the program sought to achieve around 5-6% of GDP in savings, reducing the fiscal deficit to below 3 percent of GDP by the end of fiscal year 2014/15 and to a sustainable path thereafter, but the target was later revised to achieving 6.6% of GDP deficit that year.

The expenditure and revenue measures announced are presented below. Differences in the fiscal impact were found between the Authorities' estimates and more conservative IMF staff forecasts. The IMF figures consider only the effect of implemented measures to-date.

<sup>1</sup> The initial 19-month Fiscal Consolidation Program was expected to be completed in March 2015, however it was extended by one year until April 2016.

**Impact of the Fiscal Adjustment Program (in percent of GDP)**

	2013/14		2014/15		2015/16	
	Authorities	IMF Staff	Authorities	IMF Staff	Authorities	IMF Staff
<b>Revenue Measures</b>	0.6	0.4	1.8	1.1	0.4	0.0
Taxes on income and profits	0.4	0.2	0.6	0.5	0.0	0.0
Taxes on property (waste/land tax)	0.0	0.0	0.6	0.4	0.0	0.0
Import duties/waivers	0.2	0.1	0.5	0.1	0.4	0.0
<b>Proposed Expenditure Measures</b>	1.4	1.1	3.9	3.5	0.0	0.0
Wages and salaries	0.5	0.4	1.4	1.1	0.0	0.0
Goods and services	0.1	0.1	0.1	0.1	0.0	0.0
Transfers	0.9	0.5	2.2	2.2	0.0	0.0
<b>Cumulated contribution to fiscal adjustment</b>	2.0	1.4	7.8	6.0	8.1	6.0
Revenue	0.6	0.4	2.4	1.5	2.8	1.5
Expenditures	1.4	1.1	5.3	4.5	5.3	4.5

Source: Authorities and IMF Staff estimates

Source: IMF Article IV, 2013

**The country's level of public debt is high and its composition poses risks.** The debt-to-GDP ratio was 98% of GDP in 2013, but above 130% when including holdings from the National Insurance Scheme. Over the past 3 years, debt accumulated rapidly and the composition changed towards greater reliance on domestic and short-term borrowing. During 2013, two-thirds of the government's debt issuance was short-term (90 days on average). Interest payments now consume 30% of the revenue collection.

**The current account deficit and lower private sector inflows have put pressure on reserves.** The deficit reached 10.4% of GDP in 2013, partly as a result of the high oil import bill. Net private inflows fell from US\$493.2 million to 115.4 million during 2012-13. International reserves stood at US\$572.1 million or about 3.9 months of imports by the end of 2013, but have been relatively stable throughout the first quarter of 2014. This is a reflection of lower consumption and investment levels that are containing the demand for imports and easing some pressure on the exchange rate. Reserve levels are below their annual average of US\$697 million for the period of 2005–2012.

**Since 1975, Barbados has maintained a fixed exchange rate at US\$1 equal to BDS\$2.** This regime contributed to reduce external sector volatility with the Central Bank managing the foreign exchange market to allow smooth access to foreign exchange for normal business activities. However, the country's real effective exchange rate has appreciated against its main tourism competitors and client countries. The IMF's Article IV 2013 estimated a real appreciation at around 12% since 2009. Although this indicates that the purchasing power of the currency has strengthened, it also implies that the country has lost ground in terms of price competitiveness.

**The inflation rate has trended downward since 2011,** falling from 9.4% to 1.7% by June 2014. The lower rates are a reflection of the weak domestic demand and lower international commodity prices. Barbados is vulnerable to price volatility, as it imports most of its food, oil and inputs for production.

**Weak economic conditions imply high unemployment rates.** Since 2009, unemployment has reached double digits at 13.2% for June 2014. The Government announced the retrenchment of around 3,000 public sector workers (equivalent to 11% of total public sector workers) in mid-2014, which lead to higher unemployment levels by the end of 2014. The increasing layoffs are pressuring the demand for the National Insurance Scheme's (NIS) Unemployment Benefit Fund, which is now paying benefits at twice the rate that it is receiving contributions. The NIS holds one third of public debt and has invested around 68% of its portfolio in government securities.<sup>2</sup>

<sup>2</sup>The Debt Unit, Research and Economic Analysis Department. 2012. "A Note on NIS Financing." *Central Bank of Barbados Economic Review* 38(1): 1-10.

**The medium-term outlook for growth is modest.**<sup>3</sup> The Central Bank's projections suggesting output would increase to 2% in 2015 and 2.3% in 2016, driven mainly by the foreign exchange sectors, seem ambitious. The IMF estimates a slight contraction of -0.6% in 2014 with real growth at 0.9% for 2015 and 1.6% for 2016.<sup>4</sup> The fiscal consolidation program could improve the fiscal position, but would come with an adverse impact on growth, as the contribution to GDP from the public sector is high at 12% for 2013. The reductions on public consumption and investment would reduce the government's contribution to GDP going forward. However, tourist arrivals could slowly pick up and if private investments in tourism-related projects kick off, like the Pier-head Marina, Four Seasons, Sandals Resort, Sugar Point Cruise Pier, the sector could see a gradual rebound and increase its contribution to output by around 0.3% annually over the medium term.

**The banking sector remains robust despite a prolonged international economic slowdown.** The capital adequacy ratio of commercial banks improved from an annual average of 15.7% in 2005–2008 to 19.7% in 2013, and well above the 8% minimum required by the Central Bank of Barbados. At the end of March 2014, this ratio stood at 19.8%. The resolution of a large tourism-based corporate nonperforming loan resulted in the decline of the nonperforming loans ratio from 12.9% in 2012 to 11.7% in 2013. At the end of the first quarter of 2014, this ratio further declined to 10.5%. Profitability has declined and the return on assets halved from 1.6% in 2009 to 0.8% in 2013. The financial sector is highly liquid, but private sector credit growth contracted by -2.5% in 2013.<sup>5</sup>

**Barbados has a relatively well-developed financial system with generally appropriate bank supervision.**<sup>6</sup> The offshore financial sector seems not to be a major source of risk, as it does not undertake financial transactions with domestic residents. However, the recent deterioration of the banks' financial position was a risk to stability identified by the IMF.

**The social implications of the austerity program are monitored by the Authorities.** The GOB has identified the need to strengthen and expand existing social protection programs to support poor and vulnerable groups. This highlights the importance of the IDB's assistance to strengthen social safety nets and protect vulnerable groups accompanying the government through the consolidation process.

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<sup>3</sup> The IMF Article IV Staff Report 2013 highlights the high fiscal deficits, the rising debt-to-GDP ratio, the widening current account balances, the deterioration in international reserves, and sluggish growth. It welcomes the Government's fiscal consolidation measures, but advised additional tightening should be forthcoming to allow for a steeper decline in the debt trajectory. S&P and Moody's issued credit rating statements both with a negative outlook.

<sup>4</sup> IMF Article IV 2013. Moody's Credit Opinion (August 2014) forecasts -1% real GDP contraction for 2014.

<sup>5</sup> IMF Article IV 2013

<sup>6</sup> IMF Financial Sector Assessment Program of 2013.

## INDICATIVE LENDING FRAMEWORK

Table 1: Indicative Financing Envelope with Barbados - Scenario  
In US dollars Millions\*\*

	2014	2015	2016	2017	2018	Average (2014- 2018)
<b>Approvals</b>	<b>17.5</b>	<b>30.0</b>	<b>33.0</b>	<b>52.5</b>	<b>67.0</b>	<b>39.9</b>
<b>Total Disbursements</b>	<b>31.3</b>	<b>24.0</b>	<b>30.1</b>	<b>42.1</b>	<b>53.8</b>	<b>36.3</b>
Existing Portfolio	31.3	21.5	20.3	19.5	19.0	
New portfolio	0.0	2.5	9.8	22.6	34.8	
Net Capital Flow	16.2	7.2	9.9	17.5	30.5	
Net Cash Flow	12.3	3.5	6.1	13.9	27.3	
Principal repayment	15.1	16.8	20.2	24.6	23.3	
Interest	3.9	3.7	3.8	3.6	3.2	
<b>Debt to IDB</b>	<b>250.9</b>	<b>254.4</b>	<b>260.6</b>	<b>274.4</b>	<b>301.7</b>	
IDB Debt (%GDP)	6.0	5.9	5.8	5.9	6.3	<b>6.0</b>
IDB Debt (%External public debt)	16.4	16.0	15.7	15.9	16.8	<b>16.2</b>
IDB Debt (%Total Public Debt including NIS)	4.6	4.5	4.5	4.6	4.9	<b>4.6</b>

\*\* Annual approval amounts would be discussed within the context of the Bank's annual programming exercise.

**RECOMMENDATIONS OF THE COUNTRY PROGRAM EVALUATION (OVE)**

<b>Recommendations of the Country Strategy Evaluation (OVE)</b>	<b>Incorporation into the Country Strategy 2015–2018</b>
<p>RECOMMENDATION 1</p> <p><b>Continue to work with the Government of Barbados to find ways to improve project execution.</b></p>	<p>Section V. A. paragraph 5.1 addresses key areas of a 2012 Action Plan agreed with Government that will continue to be used as a guide throughout the Strategy period and will incorporate new recommendations as a result of OVE’s evaluation.</p> <p>In moving forward with any Sovereign Guaranteed lending, all of the following principles, as applicable, will be put into place, prior to approval of an operation.</p> <ul style="list-style-type: none"> <li>(i) all final designs must be complete and accepted by both the Government and the Bank prior to loan approval;</li> <li>(ii) Project Execution Units will be established only when necessary, and, where possible, project execution will be incorporated within the performing ministry or outsourced to a non-public entity that specializes in project management;</li> <li>(iii) all licenses, permits and land acquisition have to be completed prior to loan approval;</li> <li>(iv) the procurement process for at least 20% of the project should be ready to be launched immediately after loan approval; and</li> <li>(v) fiscal space will have been approved in the annual budget to accommodate the projected implementation plan.</li> </ul> <p>Implementation of the Action Plan has already begun to show results with the significant increase in portfolio disbursements in 2013.</p>
<p>RECOMMENDATION 2</p> <p><b>Strengthen the relevance and development effectiveness of the Bank’s program in Barbados through a greater engagement with the private sector</b> –in particular, making better use of MIF operations. Better factor into the Bank’s private sector strategy the constraints of small open economies. Ensure that private sector operations have demonstrated financial additionality beyond what local institutions can offer. Support the development objectives of the CS. Confirm that all risks are carefully assessed and mitigated.</p>	<p>Private Sector Development is included as a dialogue area for the 2015-2018 Country Strategy with Barbados. The technical note for the CS prepared by the Vice Presidency for the Private Sector and Non-Sovereign Guaranteed Operations (VPP/VPP) will strategically guide the Bank’s work in this area. Four priorities are initially identified in the areas of developing public-private partnerships, renewable energy, women in entrepreneurship and tourism value chains.</p> <p>Furthermore, lessons learned (success and failure) from operations supporting competitiveness in Barbados will be used as a learning tool to improve the Bank’s interventions in the sector.</p> <p>Future interventions will target sectors that have the most economic growth and foreign exchange-generating potential such as Tourism.</p> <p>The particular constraints to private investment in small economies are an explicit focus of the Bank’s analytical work in the Caribbean. In this regard, Management has established a working group to focus on maximizing the catalytic impact of the IDB’s initiatives for private sector led growth. As such, Management’s strategy is to focus on better engagement with the private sector.</p>

Recommendations of the Country Strategy Evaluation (OVE)	Incorporation into the Country Strategy 2015–2018
	Furthermore, the Country Office of Barbados (CCB/CBA) will continue to work with the Multilateral Investment Fund (MIF) on initiatives that target low income groups.
<p style="text-align: center;">RECOMMENDATION 3</p> <p><b>Recommendation for VPC in general: Revise the CS and CPD guidelines to reflect active areas of intervention in the portfolio, including recognition of the inherited and regional portfolios.</b> This means preparing technical sector notes for the main areas of the inherited portfolio as an input to ongoing policy dialogue. These operations should also be included in the CS and CPD results frameworks.</p>	<p>This recommendation is noted as it has implications for policy-making at a wider Bank level. Management, in close coordination with the Chairperson of the Programming Committee of the Board, is analyzing ways to improve the content and approval process of Country Strategies and Programming Documents, as part of the implementation of OVE’s recommendations stemming from the mid-term evaluation of the GCI-9. The revision of these documents also draws on the lessons learned from the implementation of the current CS Guidelines, during the past five years. In this regard, a series of technical briefings are scheduled with the Board in the coming months, to review the progress achieved toward that end. One of the topics that will be addressed in these reviews is how to best incorporate portfolio-related issues and lessons learned in these documents.</p> <p>Management wants to highlight that the Results Matrices of the Country Program Documents (CPDs) include not only the operations in pipeline but also the loans (SG and NSG) that are part of the active portfolio approved during the period of the current Country Strategy.</p>

## DONOR COORDINATION

The Government of Barbados obtains multilateral financial support mainly from the IDB and the CDB. The IDB is the main multi-lateral lender, representing about 67% of total multilateral debt while the CDB makes up 22%.

The **CDB** has had a longstanding and close working relationship with the IDB. The CDB is the most important multilateral lender to Barbados after the IDB. The CDB both supports and co-finances the IDB's regional program in the Caribbean and also supports country-specific interventions financed by the IDB, including the IDB's Education Sector Enhancement Program (BA0009, approved in 1998), which resulted in efficiency gains and useful coordination between the two institutions.

The CDB currently has seven active loans to Barbados totalling US\$114.7 million, of which US\$23.1 million has been disbursed.

The CDB is currently in the process of preparing its Country Strategy for support to Barbados. There has already been some discussion between the Bank and the CDB in relation to possible areas of collaboration.

The **European Union's** (EU) support to Barbados has grown significantly, primarily through the infusion of funds under the Accompanying Measures for Sugar Protocol Countries (AMSP). The current portfolio with the EC stands at around €57 million allocated from the 10th European Development Fund (EDF) and Sugar Adaptation Strategy 2010, 2012 and 2013. Approximately €49 million will be invested in building capacity through the Human Resource Development (HRD) Programme. Additionally, a sum of €5.81 million was allocated in support of a national renewable energy initiative through the Barbados Public Sector Smart Energy Program which is co-financed by the IDB.

The Plans under the 11<sup>th</sup> EDF intervention are to support Barbados in Renewable Energy and Energy Efficiency for an indicative amount of €3 million. Past EU support to Barbados included the expansion to the Barbados Language Centre at the Barbados Community College, the Barbados Health Programme, the construction of the Pommarine Hotel Training Institute, support to the Information and Communication Technology sector, support to the International Business and Financial Services Sector, and the provision of equipment for the Forensic Sciences Laboratory.

The **European Investment Bank's** (EIB) role is to provide long-term finance in support of investment projects. The EIB has provided funds through loans to entities in the private sector as well as the government. The Barbados Light & Power Company Limited has received loans from the EIB for the construction of a wind farm as well as for the upgrade of its power generating capacity. Previous loan financing in Barbados supported the development of the island's airport, installation of the South Coast Sewerage system and the development of the Bridgetown Port. Unlike the European Union, which manages the European Development Fund's money channeled through grants, the EIB does not have any predetermined funds allocated to a country or a sector. Loans are financed on a first-come first-served basis while trying to reach a certain level of geographic and sectoral diversification. The EIB has expressed interest in collaborating with the IDB in some of the priority areas as outlined in this current Country Strategy.

Although the **World Bank (WB)** graduated Barbados in 1993, special permission was obtained from the WB's Board to include Barbados in a regional HIV/AIDS project which was approved in 2001 for a sum of US\$15.2 million. In 2008, the WB would have financed a second HIV/AIDS project to an amount of US\$35 million.

The **International Finance Corporation (IFC)** is the largest global development and financial institution and has supported the development of the private sector in Barbados. Over the past 15 years, the IFC has financed the development and construction of the Crane Residential Resort (US\$20 million) and Marriott Courtyard Hotel (US\$78 million). The IFC has also financed the PriceSmart discount and membership shopping warehouse in Barbados.

The **International Monetary Fund (IMF)** does not have a lending program with Barbados. Nonetheless, the country's Government has benefited from the Fund's technical expertise through the Article IV consultations and publications and other specific sector assessments, as well as assistance through the **Caribbean Regional Technical Assistance Centre (CARTAC)** to support public financial management, financial sector supervision and statistics improvement. The IMF is currently providing technical support in the review of the country's state-owned enterprises and the tax system. This assistance should help address inefficiency, tax noncompliance, and the widening of the tax base through a reduction in tax waivers and concessions. The Bank, in close collaboration with the IMF and other partners, will also continue to monitor the country's macroeconomic environment.

A number of **United Nations agencies (FAO, PAHO/WHO, UNDP, UNFPA, UNICEF, and UNWOMEN)**, and some bilateral agencies have their regional or sub-regional headquarters based in Barbados. They generally focus on regional interventions, with limited work in Barbados. To ensure coherence with development partners in keeping with the Paris Declaration on harmonization, the donor agencies active in the region have agreed to work via "Coordination Groups" under the coordination of the United Nations Resident Coordinator's Office. The United Nations Development Assistance Framework 2012-2016 provides the strategic framework for the UN's work in the sub-region and addresses six outcome areas: Environment, energy, climate change and disaster risk reduction; economic and social governance and enhanced security; social protection and poverty reduction; food and nutrition security; public health focused on HIV/AIDS and non-communicable diseases; and capacity development and institutional strengthening.

UNDP, UNEP and FAO all work with the Global Environmental Facility (GEF) which focuses on supporting developing countries to undertake activities related to biodiversity, climate change, international waters, land degradation, and chemicals and waste in the context of development projects and programs.

The **Organization of American States (OAS)** Regional Office is based in Barbados, with its work also centred on the Eastern Caribbean. Barbados is a beneficiary of regional programs that support the areas of Culture and Tourism as well as Drug Prevention and Control.

The **U.S Agency for International Development (USAID)** Regional Programme is based in Barbados, but most of its work is in the wider Eastern Caribbean. USAID will be supporting the areas of HIV/AIDS, climate change adaptation, and Citizen Security. IDB will continue its coordination efforts in partnering with USAID on the Skills for the Future Loan (BA-L1016)

**Foreign Affairs, Trade and Development Canada (DFATD)** does not maintain a country-to-country international development assistance program in Barbados, but does maintain an important bilateral program with the Caribbean region, including Barbados, through its Caribbean regional program. DFATD also co-finances the Compete Caribbean Program in conjunction with the IDB and the UK Department of International Development. Areas of intervention include Climate Change Resilience, Private Sector Development, Public Sector Transformation, Agriculture, and Citizen Security.

**UK Department for International Development (DFID)** does not have any bilateral program with Barbados, but the country is a beneficiary of some of DFID's regional programming. DFID is working with the IDB and DFATD on developing the Compete Caribbean. The IDB will seek to continue its partnership with DFID and DFATD in the area of private sector development.

The Government of Barbados is considering membership in the Andean Development Corporation (CAF), which would provide alternative financing for budget support and investment programs.

The Government of Barbados' medium term plan related to donor coordination will foster efficiencies and knowledge sharing conducive to intervention complementarities. The main areas of collaboration are summarized below:

**DONOR COORDINATION MATRIX**

Area	IDB	IMF	WB	IFC	EU	EIB	UNICEF	OAS	ECLAC	CDB	ILO	PAHO	CARTAC	USAID	UNDP	DFATD	DFID
Coastal Zone Management																	
Climate Change Resilience																	
Energy																	
Productive Infrastructure																	
Tourism																	
Gender Equality																	
International Business and Financial Services																	
Private Sector Development																	
Public Sector Transformation																	
Health and HIV Aids																	
Education																	
Youth																	
Agriculture																	
Water																	
Citizen Security																	
Labor Markets/Relations																	
Social Protection																	
Poverty Alleviation																	
Housing																	
Governance																	
Public Financial Management																	
Budget Support																	
Statistics																	

Source: IDB in consultation with donors

## ACTION PLAN TO IMPROVE PORTFOLIO PERFORMANCE

The IDB portfolio in Barbados grew significantly from 2007 to 2012: total approved amounts increased from US\$95 million to US\$211 million while the total undisbursed loan balance (ULB) increased from US\$58 million to US\$185 million. These figures do not account for policy-based loans (PBLs), which totaled US\$115 million disbursed in 2010 and 2011. Despite this growth in portfolio size, most IDB operations do not attain their full developmental impact because of poor execution and slow disbursement. Total disbursements accounted for only 3% of the ULB in 2010, 7% in 2011 and 5% in 2012, placing Barbados as one of the countries with lowest disbursement out of the 26 borrowing members.

The main challenges affecting the performance of IDB-financed projects include: (i) systemic structural and institutional bottlenecks such as the protracted national procurement procedures within the understaffed Solicitor-General's Chamber, the mandatory involvement of the Special Tenders Committee (STC) for any procurement activities over US\$100,000 and the lengthy civil service hiring process (up to 24 months to create and fill one post) to staff separate project execution units (PEUs); (ii) bureaucracy involved in decision making as many decisions impacting on project execution have to be passed to the Cabinet of Ministers; (iii) complex and ambitious IDB project design, not aligned with the real environment in which projects are executed, nor with the high number of activities and agencies involved in project implementation which jeopardize the overall ability of project executing units to efficiently manage projects; and (iv) the limited project management and implementation capacity, which affects the planning, execution, and monitoring of investment loans.

Recognizing that it was in the interest of both the Government of Barbados (GOB) and the IDB to address these bottlenecks, the IDB Country Office in Barbados in 2012 developed an Action Plan to Improve Portfolio Performance to provide sustainable mechanisms for substantially improving the developmental impact and efficiency of IDB's interventions in Barbados.

The Action Plan is being implemented in coordination with the GOB and several functional areas of the IDB (sectors, fiduciary and operational). Together, the GOB and the IDB agreed to focus on four main pillars: (i) streamlining the investment loan portfolio; (ii) optimizing project design; (iii) improving project execution; and (iv) strengthening the institutional framework of the Government (country systems) to implement projects. The Action Plan includes the following activities:

**Investment loan portfolio streamlining:** (a) identification of remaining balances from non-performing loans that can be redirected to other fast disbursing or performing loans; (b) reduction of the number of non-performing operations through reformulations, closure by the current expiration deadline, or consolidation of existing operations; (c) future programming dialogues targeted at interventions that are fast disbursing and/or do not require the establishment of a new project executing unit; and (d) establishment of annual agreed-upon disbursement benchmarks that would be used as criteria for new investment lending from the IDB into the same sector/priority area.<sup>1</sup>

**Project design optimization:** (a) simple and realistic (scope and timeline) project design; (b) a master checklist of activities both the GOB and IDB agree to have completed prior to approving new investment

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<sup>1</sup> The mutually-agreed annual disbursement benchmark considered to possibly increase the financial envelope during the Country Strategy period, if other factors are present, would be annual loan disbursements of at least 12.7% of the undisbursed SG loan balance at the beginning of the year. The percentage of annual investment loan disbursements over the undisbursed loan balance increased from 4.6% in 2011 to 19.3% in 2014 while the percentage of annual investment loan disbursements over the undisbursed and eligible SG investment loan balance increased from 6.3% to 21.6% for the same years.

loans; (c) development of an Integrated Project Life Cycle (PLC) of both IDB and GOB loan approval and implementation processes; (d) mapping of key government processes (procurement, civil servant hiring, budget process, land identification/acquisition); and (e) development of a Project Execution Plan (PEP) template in MS Project with the goal to use it in the early stages of project design/initiation.

**Project execution improvement:** (a) development and operationalization of project implementation templates in MS Project, integrating project, fiduciary and contract management in one single framework; (b) establishment of better project and fiduciary management practices during the eligibility phase and of project start-up workshop standards for new operations; (c) assessment the capacity of all PEUs and development of a Master Training and Retraining Plan; (d) joint GOB/IDB cross-training on fiduciary matters and customized project management and MS Project trainings; (e) project steering committees training in executive project management; (f) establishment of an online community of practice (PEU Hub web portal) for improved communication between IDB, PEUs and the Public Investment Unit (PIU) of the Ministry of Finance and Economic Affairs; and (g) visualization of results achieved through the Project Triangle, a triple-constraint graph aligning key project management principles (on time, within scope and on budget).

**GOB institutional framework strengthening:** (a) Training of PEUs, PIU and IDB staff on country process maps; (b) consultations with and buy-in from various GOB entities that are involved in project approval and implementation; (c) mitigation of project design and execution delays using risk matrices; (d) approval measures to strengthen and increase the use of Country Systems; and (e) IDB/GOB dialogue on possible alternative execution mechanisms, such as a centralized fiduciary unit, and on government project team continuity between project design and implementation phases.

The improvement of the portfolio performance realized after two years of implementation of the Action Plan is a result of the cumulative effect of these improvement initiatives and measures. Concrete results achieved include the fact that in 2013, total investment loan disbursements reached US\$23.7M, which as the third highest disbursement performance in Barbados since the year 2000. This represented 15% of the undisbursed loan balance and an increase of 425% and 150% when compared to disbursements made in 2011 and 2012 respectively. In addition, continuous dialogue with GOB on the need to improve performance resulted in Cabinet approval to cancel approximately US\$54 million from under-performing loans, which effectively reduced undisbursed loan balances. As of July 31, 2014 a total of US\$49.5M was cancelled with the remaining expected to be cancelled by the end of 2014. Finally, with regards to country systems, a financial management assessment and a Public Expenditure and Financial Accountability (PEFA) performance assessment were completed in 2014, which will allow the IDB to provide further support to the government in the implementation of the recommendations identified in these assessments.

DEVELOPMENT EFFECTIVENESS MATRIX

COUNTRY STRATEGY UPDATE: DEVELOPMENT EFFECTIVENESS MATRIX

In August 2008, the Board of Directors approved the Development Effectiveness Framework (GN-2489) to increase the evaluability of all Bank development products.

The Development Effectiveness Matrix for Country Strategies (DEM-CS) is a checklist of the elements that are necessary to evaluate a country strategy. It is based on the evaluation criteria developed by the Evaluation Cooperation Group of the Multilateral Development Banks in the "Good Practice Standards for Country Strategy and Program Evaluation."

**Barbados Country Strategy**  
**Date : 2015-2018**

**STRATEGIC ALIGNMENT** This measures two dimensions: (i) the extent to which the objectives of the strategy are consistent with the country's development challenges and with the government's priorities and plans; and (ii) use of a mix of products (financial, knowledge, technical assistance) to attain the objectives, and identification of other cooperation agencies and their areas of action

Consistency of strategic objectives: The strategy identifies the following priority areas of intervention in Barbados: (i) Tourism; (ii) Transportation and Logistics; (iii) Energy; and (iv) Integrated Coastal Zone Management and Climate Resilience. All areas selected for Bank intervention tackle key development challenges, are consistent with the government's priorities and result from the dialogue between the country and the Bank.

Mix of products and participation by other donors: The CS does not provide an indicative mix of products (Financial -SG, NSG, Knowledge, Technical Assistance) for the achievement of CS objectives. The Strategy takes into account the interventions of other bilateral and multilateral donors in Barbados.

**EFFECTIVENESS** (This measures whether the country strategy is likely to achieve its intended objectives, through an examination of four dimensions: (i) the quality of the diagnostics on which Bank action is based in each area of work; (ii) the quality of the results matrix for the strategy; (iii) the use and build up of country systems; and (iv) the analysis of the lending framework.

Effectiveness dimensions	
<b>I. Sector diagnostics</b>	
- Identifies the main problems based on empirical evidence	100%
- Identifies the main beneficiaries	100%
- Identifies and measures the factors that contribute to the problems identified	100%
- Presents the policy framework and a sequence for Bank intervention	100%
- The diagnostic corresponds to the objectives presented in the strategy	100%
<b>II. Results matrix</b>	%
- The expected outcomes are clearly defined	100%
- The indicators are outcome indicators and are SMART	100%
- The indicators have baselines	100%

Sector notes for all four CS priority areas were presented:

100% of the notes clearly identifies the main sector problems based on empirical evidence.  
100% of the notes identifies the potential beneficiaries in each area of intervention.  
100% of the notes identifies or measures the factors that contribute to the problems identified.  
100% of the notes of the notes identify the policy framework and a sequence for Bank actions.  
-In 100% of the notes, there is consistency between the note and the proposed strategic objectives.

Results matrix:

100% of the strategic objectives clearly identify expected outcomes.  
100% of the indicators used are SMART.  
100 % of the indicators have baselines.

Country Systems: Assessments have been carried out for all the financial management subsystems. With the exception of internal audits, all financial management systems will be used partially or entirely. In the other hand, none of the procurement subsystems will be used. During the CS period, the Bank will continue to provide support to country systems in the financial management subsystems related to budget, external controls and accounting and reporting as well as the overall public procurement system.

Lending framework: The strategy contains an analysis of the country's financing requirements and provides an estimate of the amount required from the Bank during the strategy period.

**RISKS.** This measures three dimensions: (i) identification of factors that actually do or might affect attainment of the proposed objectives; (ii) definition of mitigation measures; and (iii) monitoring mechanisms.

The strategy identifies the risks associated with the participation of the Bank in each one of the priority areas as well as the macroeconomic, political, and portfolio execution risks and the risk of Barbados' upper-middle income status. Mitigation and monitoring measures are presented.