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IDB GROUP COUNTRY STRATEGY
WITH
BARBADOS
(2019–2023)

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This document was prepared by Juan Carlos de la Hoz (CCB/CBA), Laura Giles Álvarez (CCB/CCB), Francisco Javier Urra (CCB/CBA), Juan Pedro Schmid (CCB/CCB), Kimberly Waithe (CCB/CBA), Shamar Kadeem Blenman (CCB/CBA), Marcelo Javier Paz (DSP/DCO), Maria Cecilia Acevedo Villalobos (DSP/DCO), Dora Moscoso (MIF/OPU), Vashtie K. Dookiesingh (GRU/CTT), Ruth Simone Houlston (GRU/CBA), Mario Vinicio Rodriguez Pineda (VPC/FMP), and Maria Camila Padilla (VPC/FMP), with contributions by all relevant VPS sector specialists and Moises Schwartz (CCB/CCB) under the direction of Therese Turner-Jones (CCB/CCB).

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Table of Contents

I. COUNTRY CONTEXT	2
II. THE IDB GROUP PRESENCE IN BARBADOS	5
III. PRIORITY AREAS	9
IV. PROJECTED LENDING FRAMEWORK	21
V. STRATEGY IMPLEMENTATION	21
VI. RISKS	23
ANNEX I: BARBADOS: COUNTRY STRATEGY RESULTS MATRIX	i
ANNEX II: INDICATIVE LENDING FRAMEWORK	vi
ANNEX III: SELECTED ECONOMIC AND SOCIAL INDICATORS FOR BARBADOS	vii
ANNEX IV: COUNTRY STRATEGY DEVELOPMENT EFFECTIVENESS MATRIX	viii
ANNEX V: MANAGEMENT'S RESPONSE TO THE COUNTRY PROGRAM EVALUATION	ix

Electronic Links

- i. [COUNTRY DEVELOPMENT CHALLENGES FOR BARBADOS](#)
- ii. [PORTFOLIO REPORT](#)
- iii. [CONSULTATION WITH CIVIL SOCIETY](#)
- iv. [FIDUCIARY TECHNICAL NOTE](#)
- v. [DONOR COORDINATION](#)

ABBREVIATIONS AND ACRONYMS

BERT	Barbados Economic Recovery and Transformation Program
C-6	Barbados, Guyana, Jamaica, The Bahamas, Trinidad and Tobago, and Suriname
CAF	Corporación Andina de Fomento
CS	Country Strategy
GDP	Gross domestic product
HDI	Human Development Index
IDB	Inter-American Development Bank
IMF	International Monetary Fund
ISEE	Identification, Stabilization, Enablement, Empowerment
LAC	Latin America and the Caribbean
NIS	National Insurance Scheme
OECD	Organisation for Economic Co-operation and Development
OVE	Office of Evaluation and Oversight
PPP	Public-private partnership
ROSE	Rest of Small Economies
SMEs	Small and medium-sized enterprises
TFP	Total factor productivity
UNDP	United Nations Development Programme

IDB GROUP COUNTRY STRATEGY WITH BARBADOS 2019–2023

EXECUTIVE SUMMARY

Country Context:	Barbados has been experiencing low growth rates, elevated debt levels, and falling international reserves. As a result, the government is implementing an ambitious economic reform program to set the country on a more sustainable path. Social outcomes need to be protected, both during and after fiscal consolidation.
The IDB Group in Barbados:	The IDB's 2015-2018 Country Strategy (CS) with Barbados aimed to address binding constraints to growth by improving private sector competitiveness and the efficiency of public services in the following priority areas: (i) tourism; (ii) transportation and logistics; (iii) energy; and (iv) integrated coastal zone management and climate resilience. During the strategy period, the Bank approved five sovereign guaranteed investment loans totaling US\$101.5 million, with an additional US\$22.5 million in co-financing from the China Co-financing Fund for Latin America and the Caribbean. Sixteen technical cooperation grants were approved for US\$4.0 million, while the IDB Lab approved three grants totaling US\$1.8 million.
Priority Areas:	Under the 2019–2023 CS, the IDB Group ¹ proposes three areas of engagement: (i) fostering fiscal sustainability and a more efficient public sector; (ii) safeguarding social outcomes; and (iii) promoting higher productivity and competitiveness to enhance the country's growth potential. Given their critical importance, ensuring energy independence, building climate resilience and promoting disaster risk management will be prioritized in the IDB Group's projects. Cross-cutting issues that also span across these priority areas are gender, institutional strengthening, including a higher adoption of new technologies and a greater use of data. The dialogue areas are urban management and health.
Lending Framework:	The IDB Group proposes an indicative scenario for sovereign guaranteed financing of US\$300 million for the 2019–2023 period. This will be coupled with the resources from IDB Invest and the IDB Lab for private sector projects.
Risks:	The main risks to the CS implementation relate to the macroeconomic environment, operation execution, and vulnerability to natural disasters.

¹ The IDB Group includes the Inter-American Development Bank, IDB Invest, and the IDB Lab.

I. COUNTRY CONTEXT²

- 1.1 **Barbados is a small, tourism-based economy which experienced weak economic performance over the past decade.** Barbados's per capita GDP of US\$17,859 is among the highest of the IDB borrowing members.³ Yet the real GDP growth rate has slowed, from 2.1 percent between 2000 and 2008 to an average of 0 percent since 2009. The Barbadian economy is predominately service-based. Tourism is the main driver for growth and the source of foreign exchange, directly accounting for 13 percent of GDP, 40.6 percent when considering indirect spillovers.⁴ Such concentration renders the economy vulnerable to fluctuations in its main tourism source markets, namely, the United States, the United Kingdom, and Canada. These markets are also critical for the financial services sector, which accounts for over half of corporate tax revenue and has been under pressure over the past ten years.
- 1.2 **Elevated debt levels and declining international reserves weakened macroeconomic stability.** Weak economic growth and recurring high fiscal deficits resulted in a rapid build-up of public debt,⁵ which almost doubled from around 80 percent of GDP in 2008 to 156 percent of GDP in 2018 prior to the debt restructuring of October 2018.⁶ The authorities implemented fiscal consolidation measures to counteract these trends, resulting in both increasing revenue collection, reaching 28.3 percent of GDP in FY2017/18, and lower expenditures, at 32.7 percent of GDP (25.1 percent excluding interest payments) in FY2017/18. However, these efforts were not sufficient to reverse the debt trajectory. Additional measures were introduced, including a restructuring of debt and additional revenue-raising and expenditure-reduction measures. These reforms have led to a decline in the debt levels to an estimated 127 percent of GDP in December 2018. At the same time, the increase in external debt servicing and persistent central bank financing contributed to a steady decline of international reserves from US\$728.9 million in 2012 to around US\$221.6 million in June 2018.⁷ However, international reserves subsequently increased to an estimated US\$524.9 million in December 2018,⁸ following the halt on payments to external creditors and support from international financial institutions.

² The CS with Barbados will be in effect from its approval date until April 30, 2023 and will be valid throughout the final year of its coverage and within that year, including the last day of the month in which the CS was approved.

³ International Monetary Fund, World Economic Outlook. April 2018. In US\$ terms, Barbados ranks second after The Bahamas. In PPP per capita GDP terms, Barbados ranks 7th.

⁴ World Travel and Tourism Council Report, 2018. <https://www.wttc.org/-/media/files/reports/economic-impactresearch/countries-2018/barbados2018.pdf>

⁵ As shown in a decomposition of debt growth, inflation and real GDP growth have been insufficient to offset the rising trend in interest payments and recurring primary fiscal deficits. See Caribbean Region Quarterly Bulletin 6(3). September 2017. <https://publications.iadb.org/handle/11319/8560#sthash.lu3l8GNz.dpuf>

⁶ Central Bank of Barbados. Central Bank of Barbados Review of Economy Performance for Jan-December 2018. This figure includes central government debt, contingent liabilities and arrears and excludes SDRs.

⁷ Central Bank of Barbados. Central Bank of Barbados Review of Economy Performance for Jan-June 2018.

⁸ Central Bank of Barbados. Central Bank of Barbados Review of Economy Performance for Jan-December 2018.

- 1.3 **Current fiscal challenges could affect Barbados's high social outcomes.** Barbados ranked 58th out of 189 countries in the 2017 Human Development Index,⁹ which reflects an extensive system of public social services.¹⁰ The country also ranks 60th out of 160 countries on the 2017 Gender Inequality Index, the highest among the IDB's Caribbean Country Department (C-6)¹¹ countries and the second highest among LAC countries.¹² These results are due to low maternal mortality ratios, a high proportion of women who attained at least a secondary level of education, and high female labor force participation rates by regional standards.¹³ Inequality has declined, with a fall in the GINI coefficient¹⁴ to 0.32 in 2016 from 0.43 in 2010.¹⁵ Although extreme poverty levels also fell to 3.6 percent in 2016 from 6.8 percent in 2010, overall household poverty levels rose to 17.2 percent from 15.1 percent during the same period. Individual poverty rates stood at 25.7 percent in 2016. Poverty in Barbados has an important gender aspect, as the headcount ratio for female-headed households reached 21 percent, compared with 14 percent for male-headed households in 2016.
- 1.4 **The government's fiscal consolidation plan is an integrated part of a wider set of economic reforms that will address long-term structural challenges that hamper long-term development and growth.** Barbados scores in the top quintile for most governance indicators.¹⁶ However similar to other small island states, a small market size and low levels of diversification represent key structural constraints to growth.¹⁷ Tourism and financial services sectors contributed around 50 percent of GDP in 2017, without accounting for tourism's indirect linkages to other economic sectors.¹⁸ In addition, a gap analysis following Borensztein et al. (2014) highlights weak performance in access to finance and the private sector, given the

⁹ With an HDI value of 0.8 in 2017, Barbados is the best-performing country of the C-6 countries and scores above the average of 0.758 for countries in Latin America and the Caribbean (LAC). Between 2000 and 2017, Barbados' HDI value increased from 0.752 to 0.8. See UNDP Human Development Report 2018. http://hdr.undp.org/sites/default/files/2018_human_development_statistical_update.pdf.

¹⁰ Public social services, such as education and health, are free at the point of delivery in Barbados. As will be developed in subsequent chapters, spending on public health and education, as a percent of GDP, is comparable to the level of spending in OECD countries.

¹¹ These include Barbados, Guyana, Jamaica, Suriname, The Bahamas, Trinidad and Tobago.

¹² The Gender Inequality Index ranges between 0 and 1. Higher index values indicate higher inequalities and thus higher loss to human development. With an index value of 0.284, Barbados scores above the LAC average of 0.386. Barbados's 2017 score improved compared to the scores of 0.345 and 0.321 recorded in 2005 and 2010, respectively.

¹³ The maternal mortality ratio was 27 in Barbados, while the LAC average was 67. During 2010–2017, 94.2 percent of women had secondary education in Barbados compared to 59.5 percent in LAC. Moreover, the female labor force participation rate was 62.3 percent in Barbados, compared to 51.6 percent in LAC (UNDP, 2018).

¹⁴ The GINI coefficient ranges from 0 (complete equality) to 1 (complete inequality).

¹⁵ Barbados Survey of Living Conditions. 2010, 2016.

¹⁶ World Governance Indicators show that Barbados has greater voice and accountability, political stability, and absence of terrorism, government effectiveness, rule of law, regulatory quality, and control of corruption scores, compared to the average C-6 and ROSE country results. This is comparable to OECD countries' scores and is higher than the results obtained by other C-6 countries, which scored in the 59th percentile on average. World Bank. 2017. World Governance Indicators. <http://info.worldbank.org/governance/wgi/>

¹⁷ IDB. Country Development Challenges, Barbados. 2018.

¹⁸ Central Bank of Barbados. <http://data.centralbank.org.bb/default.aspx>

country's level of income.¹⁹ According to the Doing Business Report 2019, Barbados ranked 129th out of 190 countries compared to its regional peers such as Jamaica (75th) or Trinidad and Tobago (105th).²⁰ Excessive red tape, an inadequate labor supply, and a high tax burden are perceived as key challenges to private sector operations and the country's competitiveness.²¹ Further, although there is liquidity, SMEs report access to finance as being a key constraint to growth, primarily due to collateral requirements.²² These structural challenges for private sector development have been worsened by the macroeconomic climate, which has eroded investors' confidence in the economy.²³ Consequently, this hinders the possible contribution the private sector could make to Barbados's recovery.

- 1.5 **Fiscal consolidation will be central during the first years of the new administration.** In August 2018 the Government of Barbados launched the Barbados Economic Recovery and Transformation Program (BERT), which outlines the initial phases of an economic reform plan aiming to reach a debt target of below 100 percent by 2023 and 60 percent of GDP by 2033. The program is supported by a US\$290 million four-year Extended Fund Facility with the IMF, as well as US\$100 million in budget support from the Inter-American Development Bank (IDB) and policy-based loans from the Caribbean Development Bank. As a cornerstone of this strategy, the government foresees an ambitious fiscal consolidation plan over the next few years, including comprehensive tax reform, a reform of state-owned enterprises, debt restructuring, and improved public sector financial management, along with other supply-side measures such as the digitization of government and streamlining of licensing.²⁴
- 1.6 **Based on the scope of the challenges outlined above, the new government is committed to a short- and medium-term plan throughout its mandate.** As stated in BERT, the administration sees the CS period as one for fundamental economic and social transformation. In the short run, the government is focused on establishing fiscal sustainability, macroeconomic stability, and improving critical infrastructure. Over the medium term, the government's vision is built on seven pillars which will support long-term growth and development for the country; focusing on the areas of education, skills training and health, broadening access to finance and opportunities, greater competitiveness and the adoption of new technology.²⁵

¹⁹ The development gap is defined as the distance between the observed and the expected value of a given output indicator. See Borensztein, Miller, Sánchez, and Valenzuela. *Development Diagnostics for the Southern Cone*. IDB. 2014. <https://publications.iadb.org/handle/11319/6494>

²⁰ World Bank. Doing Business Report 2019.

²¹ Global Competitiveness Report 2016–17.

²² PROTEqIN 2014 survey results.

²³ IMF. Article IV mission report for Barbados, 2017. 2018.

²⁴ These policies include a comprehensive retooling, retraining and enfranchising program for civil servants, measures to curb central bank financing of the government and growth enhancing policies based on five pillars: (i) invest in a high skilled, knowledge based economy; (ii) provide better channels for local savings for investment; (iii) use all assets and ease fiscal leavers that constrain growth; (iv) address the cost and ease of doing business; (v) diversify the economy. Government Information Services, June 2018. <http://gisbarbados.gov.bb/download/mini-budget-summary-june-11-2018/>

²⁵ The seven pillars are: 1. Society – reinforcing social services; 2. Economy - restoring growth, rebuilding foreign exchange reserves, and improving credit ratings; 3. Governance - modernizing government and restoring citizens'

II. THE IDB GROUP PRESENCE IN BARBADOS

A. Country Strategy and Portfolio

- 2.1 **The IDB Group is Barbados's largest development partner.** The CS (GN-2812) sought to address binding constraints to growth through improving private sector competitiveness and the efficiency of public sector services. To that end, the IDB Group focused on the following priority areas: (i) tourism; (ii) transportation and logistics; (iii) energy; and (iv) integrated coastal zone management and climate resilience. The Bank also focused on strengthening strategic dialogue in the following areas: (i) public sector modernization and (ii) social protection and labor markets. Gender mainstreaming was a cross-cutting theme of the CS.
- 2.2 During the 2015–2018 CS period and the 2014 transition period, the Bank approved five sovereign guaranteed investment loans totaling US\$101.5 million, with an additional US\$22.5 million in co-financing from the China Co-financing Fund for Latin America and the Caribbean.²⁶ A Special Development Lending operation, approved on November 2018 for US\$100 million, supports the government's fiscal reform program and complements the IMF's Extended Fund Facility. Sixteen technical cooperation programs for \$4 million²⁷ and three IDB Lab grants totaling US\$1.8 million were also approved.
- 2.3 **Active Portfolio.** The active portfolio of sovereign guaranteed investment lending consists of eight operations totaling US\$191 million, of which US\$168.5 million derives from the Ordinary Capital and US\$22.5 million originates from the China Co-financing Fund for Latin America.²⁸ The operations are well aligned with the previous CS, and the current amounts approved are distributed as follows: During the CS period, US\$102.95 million were disbursed from the investment loan portfolio, with US\$31.3 million disbursed in 2014, the highest level of annual disbursement of investment loans since 2000. The operations in the portfolio have an average age of 4.9 years from approval. Three of these operations have been in execution for over six years. There were also US\$6.3 million worth of disbursements from the technical cooperation portfolio and US\$1.4 million from the IDB Lab.

confidence; 4. Infrastructure - repairing and renewing physical and technological infrastructure; 5. Environment - reinforcing conservation and relief efforts as well as investing in renewable energy sources; 6. Engaging the World - through stronger international alliances; 7. A New National Consciousness – providing motivation and fostering innovation amongst the population. Barbados Labor Party Manifesto. 2018. <http://acuteinnovation.com/BLP/2018Manifesto/>

²⁶ Two of the five operations approved are co-financed by the China Co-financing Fund for Latin America.

²⁷ These technical cooperation operations sought to achieve the country's strategic objectives in the following ways: supporting tourism growth and reinvigoration by undertaking studies and study tours of government officials; supporting the Sustainable Energy Framework for Barbados and the development of smart grids; strengthening capacity for integrated coastal zone management; improving logistics and transportation in the Greater Bridgetown Area; improving the quality and relevance of secondary and post-secondary education through the teaching of life skills; and supporting technological improvements for more targeted delivery of welfare services. This does not include the five technical cooperation operations executed under the Action Plan for C&D Countries.

²⁸ Portfolio as of September 30, 2018.

B. Principal Outcomes of the IDB's 2015–2018 Country Strategy with Barbados

- 2.4 **Tourism:** The *National Tourism Program* (BA-L1033), approved in October 2017, provides technical assistance for fundamental upgrades to the tourism product across a range of interventions, including heritage tourism. The complementary technical assistance grant, *Support to the Preparation of National Tourism Program BA-L 1033* (BA-T1033), also helped to develop a proposal for diversifying the tourism product through heritage and cultural tourism in the Greater Bridgetown Area.
- 2.5 **Transportation and Logistics:** Two technical cooperation grants, *Implementation of the ESCI in the City of Bridgetown, Barbados* (BA-T1030 & BA-T1031), financed the preparation of an Action Plan for the regeneration of the Greater Bridgetown Area that would blend public and private sector investment. The Action Plan could prioritize investments that contribute to the objectives of the *National Tourism Program* (BA-L1033) and to resource mobilization for public infrastructure to alleviate pressure on government's budget.
- 2.6 **Energy:** The two technical cooperations, *Continuation of Support for the Sustainable Energy Framework for Barbados* and *Development of New Technologies: Smart Grids & Renewable Energy* (BA-T1028 & BA-T1034), financed the design of the regulatory framework, the completion of diagnostic studies, assessments and a mitigation study, and the development of two project proposals in support of the *Sustainable Energy Framework for Barbados* program. They also funded a feasibility study for smart grid development. The investment loan, *Deployment of the Use of Cleaner Fuels and Renewable Energies in Barbados* (BA-L1012), which began execution in 2018, is aimed at enhancing Barbados's energy security by promoting the use of renewable energy. From the previous CS period, the *Sustainable Energy Investment Program* (BA-L1020) provided US\$7.7 million in loans to the private sector through the Energy Smart Fund,²⁹ resulting in the creation of 1.22 MW of new distributed renewable energy generation capacity and a savings of 1,041 MW of energy through the adoption of energy-efficient applications (higher than the original targets of 1MW of new distributed energy and savings of 500 MW of energy). The *Public Sector Smart Energy Program* (BA-L1025), along with its European Union co-financing product *Support to the Public Sector Smart Energy Program* (BA-X1003), financed the purchase of eight solar photovoltaic electric vehicles. The investment grant *Support to the Sustainable Energy Framework for Barbados* (BA-X1001) piloted a project to promote the use of compact fluorescent lamps (CFLs) and energy conservation in low- and middle-income households, saving 1,232 MWh per year of cleaner fuels for power generation and increasing the use of renewable energy sources.
- 2.7 **Integrated Coastal Zone Management and Climate Resilience:** Under this priority area, work continued with the strategic objective of strengthening the capacity for ecosystem-based integrated coastal zone management and increasing coastal resilience through projects that

²⁹ The Energy Smart Fund is a facility established to provide financial and technical support to renewable energy and energy-efficiency projects in Barbados, especially in the private sector.

were inherited from the 2009–2013 CS period. The *Coastal Risk Assessment and Management Program* (BA-L1014) stabilized and protected 1.5km of coastline in Holetown against climate-related hazards; completed a design and feasibility study for the expansion of an additional 1.7 km for the St. Lawrence Gap to Rockley Beach Shoreline Improvement; and conducted six baseline studies³⁰ on coastal and oceanographic processes with the aim of improving the monitoring activities of the Coastal Zone Management Unit. The operation also piloted an Ecosystem-Based Adaptation project which saw the transplanting of coral nurseries to shallow fringing reefs to evaluate the survival and the overall viability of restoration of the reefs. The coral nurseries pilot was supported by the *Public-Private Partnership to Preserve Coral Reefs* (BA-M1014), an IDB Lab-supported operation, as well as *Capacity Building Ecosystem Services Valuation ICZM Best Practice Dissemination* (BA-T1025).

- 2.8 **Social Protection and Labor Markets:** The *Skills for the Future* (BA-L1016) investment loan operation and *Support for the Skills for the Future Program* (BA-X1004), both ongoing, trained over 1,200 students from secondary and tertiary education institutions in life skills through the *A Ganar* Program. The investment loan also supported the Competency-Based Training Fund, which resulted in the development of 30 employer-driven training partnerships. As of June 2018, the fund trained 3,475 workers and certified 2,170 of them. *Strengthening Human and Social Development in Barbados* (BA-L1032), which is complemented by *Building Capacity for Public Policy Enhancement in Social & Labor Intermediation* (BA-T1038), aims to reduce extreme poverty and unemployment in Barbados, particularly through the expansion of the Identification, Stabilization, Enablement, Empowerment (ISEE) Bridge Program.³¹ To date, over 500 people have been enrolled. Additionally, the IDB Group financed the 2016–2017 Barbados Survey of Living Conditions (BSLC) which has generated a comprehensive dataset on welfare and consumption patterns of Barbadian households. A representative sample of 7,098 individuals living in 2,508 households participated in the survey.
- 2.9 **Private Sector Competitiveness:** The *Barbados Competitiveness Program* (BA-L1007), which was inherited from the 2009–2013 CS period, delivered the Electronic Single Window³² and a Computable General Equilibrium model.³³ However, the Government of Barbados has not fully implemented them. *Enhanced Access to Credit for Productivity Project* (BA-L1034), approved in 2014, provided over 40 guarantees to small and medium-sized enterprises (SMEs) in the country, totaling approximately US\$15 million in an effort to address the lack of financing available to this sector. The complementary technical cooperation, *Strengthening the*

³⁰ The baseline studies conducted were: Coastal Zone Light Detection and Ranging survey; nearshore wave climate; shoreline change; circulation, water quality and sedimentation; geotechnical surveys and investigation; and sediment transport.

³¹ The ISEE Bridge Program intends to benefit 250 households over a four-year period by providing complete vaccinations for children under the age of five, school enrollment of children, participation in early childhood development programs, remedial learning for adults, and health checkups for pregnant women and the elderly.

³² The Electronic Single Window is a single-entry electronic platform that allows regulatory requirements from multiple agencies for cross-border and international trade and transport transactions to be fulfilled. It reduces time and costs of these transactions, thereby improving international competitiveness.

³³ The Computable General Equilibrium model is a tool that allows policymakers to assess the direct and indirect impacts of alternative tax regimes on economic activity and government revenues. It is intended to reduce the erosion of tax revenues caused by excessive tax expenditures.

Institutional Capacity of the Central Bank of Barbados (BA-T1032), financed the development of an online platform to monitor the portfolio of guarantees throughout the life cycle of the operations. Another technical cooperation, *Exchange for the Strengthening of the Caribbean Banking System* (BA-T1049), financed an intra-regional knowledge exchange in 2017 among Caribbean countries in Montego Bay, Jamaica, at which consensus was reached on the Caribbean De-risking Action Plan toward strengthening banking regulation and compliance. The *Compete Caribbean Program* (RG-X1044) supported the improvement of the business climate in Barbados. A feasibility study was conducted to reduce the cost of doing business and promote greater efficiency across the business sector. The implementation of an action plan for the institutional strengthening of the Barbados Immigration Department helped facilitate business, investment, and tourism.

- 2.10 **Public Sector Modernization:** The investment loan, *Modernization of the Barbados National Procurement System* (BA-L1004), fostered (i) e-procurement to reduce costs and processing time of public procurements and (ii) administrative registries. Through a TC-Intra (BA-T1043) Barbados officials shared good practices with the National Institute of Statistics and Censuses of Ecuador.
- 2.11 **Gender:** Two newly approved investment loan operations, *Strengthening Human & Social Development in Barbados* (BA-L1032) and *Road Rehabilitation and Improving Connectivity of Road Infrastructure* (BA-L1035), support gender mainstreaming by promoting female participation in training activities proposed under the institutional strengthening component of the respective operations. The vocational counselors under *Strengthening Human & Social Development in Barbados* (BA-L1032) have been trained to support gender mainstreaming by encouraging women to pursue non-traditional occupations. Further, the ISEE Bridge Program heavily features female participation. This is important given that the 2016-2017 BSLC found that a higher percentage of women than men experience extreme poverty (4.1 percent vs. 2.7 percent).
- 2.12 **Other:** *Water and Sanitation Systems Upgrade* (BA-L1015), an investment loan inherited from the 2009-2013 CS period, financed the replacement of 49km of approximately 3,200km of water distribution mains in Barbados, leading to a reduction of non-revenue water from 49 percent to 40 percent.

C. Lessons Learned

- 2.13 **Several key lessons have been learned from the CS implementation.** First, Barbados has very solid and well-defined institutional arrangements compared to other countries across LAC. These provide clear procedures and processes which guarantee the rule of law. However, they add requirements to operational programming, project preparation, and implementation. As a result, the scope of the IDB Group to quickly adapt and respond to operational challenges is limited, ultimately affecting developmental results. Second, although embedding project-executing units within line ministries helps to maintain and improve institutional knowledge, there are still lengthy timelines for filling vacancies and for project-related procurement processes, which can delay project execution. A more strategic dialogue regarding operational implementation modalities could enhance execution. Third, the implementation of the portfolio in Barbados is strongly linked to the macroeconomic situation. The deterioration of fiscal and

economic conditions reduced the fiscal space available for IDB Group-financed operations and resulted in lower disbursements. Fourth, the presence of sector specialists based in the Barbados Country Office proved to be a key factor for effective project preparation and implementation. Projects need to propose more realistic goals and schedules to allow for the institutional settings. Bi-annual programming is a welcome feature, as project identification, programming and preparation is a lengthy process in Barbados which often spans more than a year.

III. PRIORITY AREAS

- 3.1 **Strategic approach.** The IDB Group's CS with Barbados 2019–2023 aims to support the restoration of a sustainable growth path that is fiscally prudent, safeguards social outcomes, and increases productivity and competitiveness. This objective will be pursued through the following three areas of intervention: (i) fostering fiscal sustainability and public sector efficiency; ii) safeguarding social outcomes; and (iii) boosting productivity and competitiveness. Given the critical importance of promoting energy independence, building climate resilience and promoting disaster risk management, these issues will be prioritized in the IDB Group's projects in line with the government's vision and supporting its target of achieving carbon neutrality by 2030. Cross-cutting issues relating to gender and diversity, and institutional strengthening, including the promotion of a higher adoption of new technologies and a greater use of data, are also mainstreamed across each of these areas.
- 3.2 The IDB Group's strategic approach builds on the results of the previous CS, the Country Development Challenges, and OVE's recommendations. The proposed thematic areas are also in line with BERT.
- 3.3 **Strategic alignment.** The priority areas outlined in this section are aligned with the Update to the IDB Institutional Strategy 2010–2020 (GN-2788-5) through the establishment of smart institutional frameworks and enhanced capacity of the state, including all segments of the population in financial markets; developing quality human capital through life-long skills development; providing adequate knowledge and innovation ecosystems by facilitating the use of technologies; promoting gender equality and diversity; and addressing the economic and social impacts of climate change through the implementation of adaptation and mitigation measures. The strategic areas are also aligned with the priority segments of IDB Invest's 2017–2019 Business Plan (CII/GA-77-4) relating to financing infrastructure development, strengthening capacity to support the corporate segment, and leveraging resources through the financial system for the priority areas and cross-cutting themes.³⁴

A. Fostering Fiscal Sustainability and Public Sector Efficiency

- 3.4 **The government's fiscal reform program, as stated in BERT, will include revenue-enhancing and expenditure-curbing measures, as well as institutional reforms.**

³⁴ The proposed strategic areas are also aligned with the 2018 IDB Invest Business Plan Update (CII/GA-77-4).

Barbados's economy has been on an unsustainable macroeconomic path for several years, accentuated by slow economic growth and inadequate government financing.³⁵ Fiscal reforms prior to May 2018 fell short of their promised results, and further adjustments are necessary.³⁶ The new government has already announced a series of measures to increase revenues and reduce expenditures and is focused on improving the efficiency of public expenditure, especially across state-owned enterprises. Fiscal consolidation will also have to come hand in hand with institutional reforms that increase the capacity of the State to effectively implement the reform agenda.

- 3.5 Expenditure measures focus on reducing and promoting greater spending efficiency.** Given the outsized burden on fiscal balances stemming from transfers to public institutions,³⁷ reforms to this category of spending can yield substantial savings. Transfers to public institutions are high, at 7.5 percent of GDP or approximately a quarter of government spending.³⁸ Many of these institutions are dependent on government support and built up debts to their suppliers and the National Insurance Scheme that contributed to the accumulation of arrears, reaching almost 12 percent of GDP in FY2017/18.³⁹ As a key component of the fiscal consolidation program, the government plans to restructure state-owned enterprises, making them more efficient and focused, as well as outsourcing the management of some of the more commercial activities. These reforms could also have negative externalities on social sector outcomes, despite the Extended Fund Facility's planned floor on spending for key social programs.⁴⁰ Promoting greater efficiency of spending also requires addressing public financial management and public sector management structures, as well as the development of new financial management tools and processes (such as fiscal rules and a medium-term debt framework). These will support prudent fiscal policy and make public expenditures more efficient and effective.⁴¹ In addition, as stated in BERT, increasing the efficiency of the civil service will be extremely important during the reforms.⁴²
- 3.6 Increasing revenues will require improving the tax collection system and broadening the tax base.**⁴³ Despite increased efforts by the tax administration, tax collection remains inadequate. For example, on-time filing for Corporate Income Tax and VAT is less than 50

³⁵ IMF. Article IV mission report for Barbados, 2017. 2018.

³⁶ CBB. Quarterly Economic Review Jan-Sept 2018.

³⁷ These include state-owned enterprises and other public institutions that receive transfers from the government, such as the University of West Indies.

³⁸ Figures for estimated actual spending for FY2017/18. IMF. 2018. Barbados: Request for an Extended Arrangement Under the Extended Fund Facility-Press Release; Staff Report; Staff Supplement; and Statement by the Executive Director for Barbados. <https://www.imf.org/en/Publications/CR/Issues/2018/10/04/Barbados-Request-for-an-Extended-Arrangement-Under-the-Extended-Fund-Facility-Press-Release-46283>

³⁹ Ibid. This figure represents the net stock of domestic arrears.

⁴⁰ The largest transfers for public institutions go to the Queen Elizabeth Hospital and the University of West Indies.

⁴¹ Barbados currently does not use either of these tools.

⁴² As stated in BERT and the IMF program. This will be an important component of the reforms.

⁴³ The single greatest contributor to tax expenditures is corporate income tax. However, tax expenditures are also notably (but not exclusively) applied to personal income taxes, land and property transfer taxes. IMF. 2018. Article IV Mission Report 2017, Barbados.

percent, which is low by international standards.⁴⁴ The widespread use of tax waivers and exemptions has also narrowed the tax base. It is difficult to measure the full extent of tax exemptions, as they are contained across a wide spread number of separate and uncoordinated laws.⁴⁵ Yet a 2013 study suggests that removing tax expenditures could increase revenues, boost GDP growth, lower unemployment, improve income equality, and reduce debt-to-GDP ratios. The government is also working toward a convergence of corporate tax rates between domestic and international companies, in response to pressures from the OECD and the European Union. The effects of this overhaul of the tax system will require a revision of tax rates, waivers, and exemptions and greater monitoring to ensure an adequate balance regarding transparency, revenue collection, and competitiveness.

- 3.7 **Promoting greater public sector digitization could reduce costs, increase competitiveness, and ease the burden of excessive red tape.**⁴⁶ Barbados ranks 54th out of 193 countries in the United Nations e-Government Development Index.⁴⁷ There are currently few e-government transactions that are 100 percent online, and the government is now set to work on an e-government strategy. This is likely resulting in foregone savings, as international evidence shows that digital transactions are 74 percent faster on average and cost between 1.5 and 5 percent of the cost of face-to-face transactions.⁴⁸ Many public processes in Barbados are lengthier and costlier than in other countries,⁴⁹ which is reflected in Barbados's scores in the Doing Business Report 2018. Inefficient government bureaucracy was also the second most problematic factor for doing business in the World Economic Forum's Executive Opinion Survey for Barbados.⁵⁰ Low levels of digitization in the public sector, as well as limited access to data, are also likely hindering competitiveness⁵¹ and the formulation of evidence-based policy.⁵²

⁴⁴ According to the IMF, as a general rule of thumb, rates of registration and on time filing should be at least 60 percent. However, they can be much higher. Canada reports 90 percent corporation on-time filing compliance for example. Sources: Rivas and Crowley. 2018. Using Administrative Data to Enhance Policymaking in Developing Countries: Tax Data and the National Accounts. IMF Working Paper WP/18/175. 2018.

<https://www.oecd.org/tax/administration/CIS-2010.pdf>

⁴⁵ Webb and Reyes-Tagle. Barbados: Major Public Entities. 2013.

⁴⁶ For example, the social protection sector has been investing in a management information system and the education sector has been developing an education management information system, but the rollout of both systems has been challenging.

⁴⁷ The country scores particularly low in the Online Service sub-index (0.44, compared to the leading countries—Estonia and Singapore—which score 0.89 and 0.97, respectively).

⁴⁸ For example, Estonia reports annual savings equivalent to 2 percent of the GDP. E-Governance Academy of Estonia, *e-Estonia* www.etervis.ee For further evidence see Kernaghan, K. Anywhere, Anytime, Any Device: Innovations in Public Sector Self-Service Delivery. 2012. https://iccs-isac.org/assets/uploads/publications/Self-Service_Kernaghan_Report-Final-Sept_2012.pdf

⁴⁹ This scoring reflects delays and challenges in completing government procedures, such as dealing with construction permits, getting electricity or registering a property. According to the 2018 Doing Business Report, distance to frontier for each of these three indicators was 56.63, 46.36 and 52.35 respectively. The distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier. World Bank. Doing Business Report, Barbados. Washington DC: World Bank. 2018.

⁵⁰ http://reports.weforum.org/pdf/gci-2016-2017/WEF_GCI_2016_2017_Profile_BRB.pdf

⁵¹ IDB. Country Program Evaluation: Barbados 2014-2018. 2018.

⁵² This point is further evidenced in pillar 2 with specific examples of the education sector.

- 3.8 **Proposed interventions.** The IDB Group proposes to support the development and implementation of the fiscal consolidation reforms, improve government capacity to analyze their socioeconomic impact, and support the development of public financial management systems, the implementation of the Public Financial Management Act 2018, and related legislation. The cornerstone of the institutional strengthening strategy will focus on improving government efficiency and effectiveness. Specific proposed actions include (i) strengthening operational and spending efficiency in central government departments, public institutions, and state-owned enterprises; (ii) improving tax collection by broadening the tax base and reducing distortions; (iii) strengthening public sector management and public financial management systems;⁵³ and (iv) implementing a public sector digital strategy.
- 3.9 **Alignment.** The proposed actions in this strategic area contribute to the objectives of the Update to the IDB Institutional Strategy 2010–2020 (GN-2788-5) by creating a more distributive fiscal policy, strengthening the capacity of the State, establishing a smart institutional framework, and strengthening institutional capacity and the rule of law.

B. Safeguarding Social Outcomes

- 3.10 **Favorable social outcomes reflect well-functioning but costly social services, which will likely experience increasing fiscal and operational pressures.** Ranking 58th out of 189 countries on the Human Development Index (HDI), Barbados falls within the very high human development category of countries.⁵⁴ Behind these results is a comprehensive but costly public social system.⁵⁵ For example, public health spending in Barbados is approximately 4.5 percent of GDP (64 percent of total health spending), higher than the average 3.6 percent of GDP (51 percent share of total health spending) in LAC countries.⁵⁶ Expenditure on public education reached 5 percent of GDP in 2015, similar to public education spending in OECD countries (5.2 percent).⁵⁷ Moreover, a low penetration of technologies in the delivery of social services results in foregone opportunities to make service delivery leaner and less costly.⁵⁸ Going forward, social services face two main challenges. On the one hand, in the context of fiscal consolidation, efficiency gains and improving value for money will be required to maximize results with the available resources.⁵⁹ Public sector layoffs will also likely increase demand for social services,

⁵³ Some specific examples include investing in an updated human resource system for the civil service or developing effective public financial management tools that support climate change mitigation measures such as contingency funds or disaster response mechanisms.

⁵⁴ With an HDI value of 0.8, Barbados scores above the average of 0.758 for LAC countries. 2017.

⁵⁵ Social services in Barbados include free education and health services at the point of delivery, pension and unemployment benefits through the National Insurance Scheme (NIS), and a broad range of social assistance programs.

⁵⁶ World Health Organization. National Health Accounts <http://www.who.int/health-accounts/en/>

⁵⁷ UNESCO Institute for Statistics. <http://data.uis.unesco.org/>

⁵⁸ For example, there currently is no digitalized medical record system or integrated information management system across the different levels of health care provision, making patient tracking very difficult.

⁵⁹ Based on FY2018/19 budget estimates, social spending was almost half (46 percent) of non-interest, non-amortization spending. Efficiency gains in this sector could thus have major implications for overall government spending.

which will be difficult to meet given constraints to raising the public funding allocation. On the other hand, changing demographics will have a structural impact on demands for education, health or social protection and will require an active review and a reorganization of social services.⁶⁰

- 3.11 **The large range of programs that comprise the social protection system face coordination challenges and overlapping areas of responsibility.**⁶¹ The social protection system in Barbados rests on two pillars, the National Insurance Scheme (NIS) and safety net programs. The NIS will potentially face pressures to absorb a temporary increase in the demand for unemployment and severance benefits as a result of the public sector layoffs. In the latter set of programs, clear, objective rules of eligibility, consistent results monitoring, and data management and information systems are lacking. Some safety net programs are also providing services which they were not designed to do. For example, the ISEE Bridge program is designed as a ladder to climb out of poverty, whereas the National Assistance Program is designed to react when emergencies happen. However, the latter is instead used as a path out of poverty.⁶² Despite its broad coverage, there is a need to better identify and respond to underserved and at-risk populations, such as victims of gender-based violence and people with disabilities. Notwithstanding fiscal constraints, greater capacity should be built into the safety net programs so that they can respond to rapid increases in coverage that could be necessary in times of stress.
- 3.12 **The education system could better reflect the needs of the market.** Education outcomes in Barbados are high by international standards. For example, the country has 15.3 expected years of schooling and a 107 secondary education gross enrolment ratio,⁶³ which is higher than the average 13 expected years of schooling and the 90.7 gross enrolment ratio for secondary education in C-6 countries. However, managers surveyed for the PROTEqIN survey report considered an inadequately educated workforce as the second most serious obstacle to current operations.⁶⁴ The Ministry of Labour also reports lack of combined academic and applied experience as a key factor behind high youth unemployment, which is more than triple the level

⁶⁰ For example, health care services are skewed toward tertiary levels and curative care. The country spends more on curative services than the average OECD levels (72 percent vs 55 percent), approximately the same on prevention (3 percent), and less on long-term care (10 percent vs 13 percent). The rising incidence of non-communicable diseases will require a greater focus on preventive health services.

⁶¹ Social programs in Barbados would benefit from an exercise to rationalize and eliminate duplication. For example, the National Assistance and the Poverty Eradication Fund seem to have overlapping objectives in helping families with rent and bill payment.

⁶² Ministry of Social Care, Constituency Empowerment & Community Development. 2018.

⁶³ These scores have been improving. In 2000, Barbados had 14 expected years of schooling and a secondary gross enrollment ratio of 103. World Bank Development Indicators and <http://hdr.undp.org/en/content/expected-years-schooling-children-years>

⁶⁴ Employers highlight that the workforce lacks an appropriate mix of skills in the labor market, which likely points to the need for greater integration between the traditional education system and vocational training courses (PROTEqIN Survey 2014).

of adult unemployment.⁶⁵ Therefore, a more holistic and diverse curriculum that offers a combination of theoretical knowledge and practical experience, as well as a greater range of options for vocational training programs, are necessary. In addition, the availability of education data is limited, which can hinder informed policy making. For example, the Ministry of Education, Technological and Vocational Training has not published an education digest in the last eight years, which limits the amount of easily available data on education.⁶⁶ Although the ministry started implementing a new education management information system (OPEN EMIS) in 2018, obtaining data on schools will continue to be challenging until it is fully rolled out.

- 3.13 **Proposed interventions.** Based on the challenges described above, the IDB Group's proposed interventions will promote greater effectiveness and efficiency of social spending by supporting (i) investments in gathering and analyzing social data and in information management systems and (ii) measures that enhance an efficient and effective provision of public social services, such as the improvement of delivery mechanisms.⁶⁷ In the education sector, the IDB Group will support the government's efforts to improve the supply and demand match in workers' skills⁶⁸ by supporting work experience programs and a more complete curriculum that integrates vocational training, retooling, and retraining programs.
- 3.14 **Alignment.** The proposed areas of intervention align with the Update to the IDB Institutional Strategy 2010–2020 (GN-2788-5) by supporting the eradication of extreme poverty, strengthening the capacity of the State, developing human capital, promoting gender equality and diversity, and strengthening institutional capacity and the rule of law. The priorities set forth in this strategic area are also aligned with the priority areas of the IDB Invest 2017–2019 Business Plan regarding support for the infrastructure segment through social infrastructure.⁶⁹

C. Promoting Greater Productivity and Competitiveness

- 3.15 **Enhancing productivity is key for long-term growth.**⁷⁰ Despite a positive contribution of total factor productivity (TFP) to economic growth since 2010, TFP is lower in Barbados than the average of other small economies, and the gap is widening.⁷¹ Four factors are associated with the worsening performance of growth and aggregate productivity in Barbados: (i) insufficient

⁶⁵ 31.1 percent youth unemployment compared to 8.8 percent adult unemployment. Ministry of Labour, Social Security and Human Resource Development. The National Employment Policy of Barbados. 2014.

⁶⁶ Currently, administrative data are available at the ministry upon request, but the process is lengthy and can vary on a case-by-case basis.

⁶⁷ There is ample international evidence that proxy means testing has been useful toward this goal. Barreix et al. Aumentando la recaudación y compensando a los más pobres. 2010; IDB and Calef et al. The Role of Social Protection in Protracted Crises - Enhancing the Resilience of the Most Vulnerable. 2016.

⁶⁸ This will aim to support skills that respond to the demands and changing nature of jobs both in Barbados and internationally.

⁶⁹ These proposed actions are also aligned with the approved 2018 Business Plan Update (document CII/GA-77-4).

⁷⁰ Based on a decomposition of GDP growth using a Cobb Douglas production function, sources of economic growth can be related to the accumulation of factors (labor and fixed capital) and to the efficiency of utilizing these factor inputs (total factor productivity, TFP).

⁷¹ The ratio of TFP in Barbados vs the rest of small economies (ROSE) was around 70 percent in 2007 and decreased to 40 percent in this 2014. See Ruprah et al. "Is There a Caribbean Sclerosis?" 2014 for a complete list of countries included in ROSE.

economies of scale and limited scope for diversification, with a dominating small number of firms in key economic sectors; (ii) a slow and costly business regulatory environment that constrains innovation,⁷² exacerbated by challenges to accessing finance,⁷³ and an insufficient use of technologies; (iii) a high dependence on imported fossil fuels and high electricity prices; and (iv) the worsening condition of the infrastructure stock.

3.16 Limited economic diversification negatively affects aggregate productivity, competitiveness, and growth. Services have accounted for approximately 90 percent of GDP for the past two decades, tourism being the key sector in the economy. Barbados ranks 18th out of 185 countries in the World Travel & Tourism Council 2018's index measuring tourism's direct contribution to GDP.⁷⁴ Yet, the tourism industry's share of total value-added dropped from 14.1 percent to 13.5 percent between 2000–2008 and 2009–2017, respectively.⁷⁵ This has been coupled with falling productivity, from Bd\$73,600 per worker in 2012 to Bd\$67,500 in 2017.⁷⁶ The worsening performance of this sector may be related to aging infrastructure (approximately one-third of the country's hotels were built in the 1970s, and required refurbishments have been constrained),⁷⁷ high operating costs, an underuse of new technologies, and limited product offerings.⁷⁸ Growth in other sectors has not compensated for the lagging performance of the tourism industry, reflecting the lack of diversification in the economy, which ultimately undermines growth.⁷⁹

3.17 The weak business climate is hampering productivity.⁸⁰ Barbados's weak business climate reflects a difficult regulatory environment with constraints to innovation, diseconomies of scale,

⁷² PROTEqIN data indicate that average productivity of innovative firms in Barbados is 10 percent higher than that of non-innovative firms. Global Entrepreneurship Monitoring (2015) report.

⁷³ Inadequate financing adds costs to economic transactions and ultimately suppresses growth. For more examples, see World Economic Forum. Global Competitiveness Report 2016–2017. 2017.

⁷⁴ Barbados has 13 percent direct contribution of tourism to GDP, ahead of many Caribbean-tourism dependent economies. World Travel & Tourism Council, data corresponding to 2017. Caribbean tourism-dependent countries include Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St Vincent and the Grenadines (Ruprah, I. and R. Sierra Engine of Growth: The Caribbean Private Sector Needs more than an Oil Change. IDB. 2016.)

⁷⁵ Measured in terms of the value-added of accommodation and food services, based on the latest national accounts.

⁷⁶ Productivity is measured in terms of real direct output per worker in the travel and tourism industry. Figures are available at <https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2018/barbados2018.pdf>

⁷⁷ Economic uncertainty and credit constraints have constrained the capacity of the private sector in the hospitality segment to perform regular scheduled property maintenance, and in some cases required renovations.

⁷⁸ Meyers Research Project (2017). Barbados Tourism Assessment / Interviews. Washington DC: IDB Invest (consultancy report); and Ministry of Tourism and International Transport. Barbados Tourism Master Plan 2014–2023. Bridgetown: Government of Barbados. 2014.

⁷⁹ The only sectors that experienced growth in their share of GDP during the same period were real estate and personal and other services, which generally complement rather than substitute the tourism industry. All other sectors remained stable or decreased. Agriculture remains a small sector, accounting for 2 percent of GDP on average since 2009. The weight of manufacturing has fallen from around 9 percent GDP in the 1990s to around 4 percent GDP since 2009,⁷⁹ despite government efforts to support manufacturing industries through incentive programs and duties and tariffs imposed on competing imports.

⁸⁰ The links between the business sector, productivity, and growth are discussed extensively both in the literature and in policy. Specific examples can be found throughout the World Economic Forum. Global Competitiveness Report 2016–2017 Report. 2017. Specifically relating to Part 1 and Annex A.

and challenges in access to finance. The country ranks 132nd out of 190 countries in the 2018 Doing Business Report and scores 45 points away (out of 100) from the best-performing economies in business regulation indicators.⁸¹ The business environment is also not conducive to innovation among firms. Despite the fact that 64 percent of firms are potentially innovative (compared to 59 percent across the Caribbean), entrepreneurs identify difficulty complying with existing regulation as one of the key hindrances to innovation.⁸² The small market size, reinforced by trade barriers, constrains businesses.⁸³ Compared to C-6 countries, Barbados scores poorly for the prevalence of trade barriers and high trade costs,⁸⁴ which reflect inefficiencies at the port.⁸⁵ Finally, the PROTEqIN 2014 survey reveals that 33 percent of companies report access to finance as one of the main challenges to private sector operations, which is worse in Barbados than the C-6 average of 27 percent.⁸⁶ High collateral requirements,⁸⁷ exacerbated by an inadequate secured transaction system⁸⁸ and a limited number of financing instruments,⁸⁹ are behind these figures. Financing constraints affect SMEs and women-led businesses disproportionately.⁹⁰

3.18 Barbados' energy matrix is highly dependent on imported fossil fuels, which contributes to high electricity costs.⁹¹ Barbados' electricity sector is one of the most efficient in the

⁸¹ The areas where Barbados scores worst are related to contract enforcement and protection of minority investors (both in the 167th place); getting electricity (160th) and dealing with construction permits (155th). Barbados's ranking and scorings in the Doing Business Report have been worsening. In the 2014 Doing Business Report, Barbados ranked 91st/189, above Jamaica (94th). World Bank Group. Doing Business Report, 2018. 2018.

⁸² Potential innovators are defined as those firms that have tried to develop a new product or service in the last three years but have encountered obstacles to accomplish this goal. Data from PROTEqIN (2014). Innovation was also one of the worse-ranked pillars of Barbados's Global Competitiveness Index 2016-2017. Global Competitiveness Report 2016-2017, which is the latest available for Barbados. http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf

⁸³ Barbados scores below the C-6 regional average index for domestic market size (1.2 versus 2 out of 7) in the Global Competitiveness Index 2016-17. Barbados's scorings have worsened over time (scoring 1.7 in 2011-12), contrasting with a stable performance for the C-6 regional average between 2011 and 2017.

⁸⁴ Ranking 43rd out of 138 in the Global Competitiveness Index 2016–2017 relating to trade barriers, compared to Jamaica, 11th, and Trinidad and Tobago, 25th. Barbados's scoring on this indicator has remained stable, ranging between 4 and 5 (1-7, best) since 2008.

⁸⁵ World Economic Forum. Global Competitiveness Index 2016–2017. 2017.

⁸⁶ This is defined as firms reporting access to finance as a major or very severe obstacle.

⁸⁷ PROTEqIN survey, 2014. Companies in Barbados report an average required collateral for private-sector loans of 180 percent of their loan value, which is the highest of all the surveyed firms in C-6 countries. High collateral, in turn, may be related to increased reserve requirements and the exposure of commercial banks to sovereign risk.

⁸⁸ In the Doing Business Report 2018, indicators related to credit position Barbados in 133rd place out of 190 countries. This is mainly explained by the poor performance of the credit information indicator, as there is no credit bureau or public credit registry in the country (Barbados receives score of zero vs an average of 4.8 in LAC).

⁸⁹ Including the availability of equity financing, venture capital/angel investment and public support.

⁹⁰ Women-led businesses in the Caribbean are more likely to be credit-rationed than comparable firms led by men. Women-owned firms are 2.1 percentage points more likely to be credit-rationed by the banking system than other firms in the sample, even when netting out the effect of riskiness, quality, and other company observable characteristics (Piras, Presbitero, and Rabellotti. Definitions Matter: Measuring Gender Gaps in Firms' Access to Credit. 2013. <https://publications.iadb.org/handle/11319/5802>)

⁹¹ This will also contribute to the government's goal of achieving an economy-wide reduction in greenhouse gas emissions of 44 percent by 2030, compared to its business-as-usual scenario.

Caribbean, but it is largely dependent on imported fossil fuels, which reached 74 percent of fuel inputs for electricity in 2015. This hinders policy efforts to reduce greenhouse gas emissions and supports high electricity prices. High fuel costs feed into electricity tariffs, which are already 30 percent higher than the average residential figure in LAC. The regulatory framework should be strengthened. For example, tariffs have historically not been reviewed often enough, which can serve as a disincentive for long-term investments and planning.⁹² This, together with onerous licensing processes,⁹³ prevents market competition and contributes to sustained high electricity prices, which are an obstacle for the private sector and affect the country's competitiveness.⁹⁴ Furthermore, existing regulation does not effectively cover new technologies and there is little incentive to invest in new non-conventional capacity, which reduces the scope to apply new technologies in the sector.⁹⁵

- 3.19 **Greater private sector engagement in infrastructure investments is required to counteract the aging infrastructure stock, which affects households and companies and constrains economic activity.** Barbados has high-quality infrastructure given its income level, ranking 30th out of 138 in the 2016–2017 Global Competitiveness Report's quality of infrastructure index—higher than other C-6 countries such as Jamaica (77th) and Trinidad and Tobago (54th).⁹⁶ Yet Barbados's ranking has been worsening since 2012–2013, when it ranked 22nd.⁹⁷ An aging infrastructure stock as well as decreased fiscal space for investments in operation and maintenance are likely behind these trends and highlight the need for more joint participation of the private sector in infrastructure provision, which remains limited partly due to a lagging PPP regulatory and associated institutional framework. The water and sanitation sector is an example of a sector facing severe infrastructure challenges. For example, the 2018 sewerage crisis resulted in substantial sewage leaks onto public roads and beaches and had a negative impact on tourism, the environment, and public health.⁹⁸ These issues are further hindered by operational challenges. Further support to the organization of the Barbados Water Authority is required to address its inefficient funding mechanism, its organizational shortfalls,⁹⁹

<http://www.unfccc.int/ndcregistry/PublishedDocuments/Barbados%20First/Barbados%201NDC%20FINAL%20September%20%2028.%202015.pdf>

⁹² The most recent Barbados Light and Power Company Ltd. tariff review was held in 2009 and the previous one was 24 years prior. Tariff reviews should be held at least every five years.

⁹³ To date the government has received approximately 1,200 submissions yet granted only 145 licenses. The process can take between six months to two years. IDB. 2018. Country Development Challenges Barbados.

⁹⁴ High production costs have contributed to reducing the competitiveness of Barbadian sectors, such as agriculture and agri-business exports in global markets. For further information, refer to IDB.2018. Country Development Challenges for Barbados.

⁹⁵ IDB. Caribbean Quarterly Regional Bulletin. IDB Caribbean Country Department Vol. 5. 2016.

⁹⁶ World Economic Forum. Global Competitiveness Report 2016–2017. 2017.

⁹⁷ The average C-6 rank was 82nd. World Economic Forum. Global Competitiveness Report 2012–2013.

⁹⁸ Hotels and restaurants in the south coast of the country were affected by the sewage. Travel partner countries, including the United States, Canada, and the United Kingdom, issued travel warnings.

⁹⁹ For example, although the organization has the authority to make independent decisions, the government generally appoints the board, which limits the organization's impartiality and independence.

and its high dependence on government subsidies, estimated at 80 percent of operating revenues.¹⁰⁰

- 3.20 **Proposed interventions center on facilitating private sector-driven investment that supports greater productivity, competitiveness, and growth in the medium and long term.** The IDB Group will support Barbados along four lines: (i) strengthening the regulatory environment and government processes to foster a more open and competitive business climate, promoting innovation and greater use of technologies; (ii) facilitating access to finance for the private sector. Prioritized measures include support to the development of secured transaction systems, institutional reforms to strengthen the insolvency frameworks and the expansion of the supply of financing instruments through financial institutions and value chains; (iii) supporting the government's target of being carbon neutral by 2030, by promoting technological innovation and a regulatory reform.¹⁰¹ IDB Invest will complement these actions by encouraging investments in energy efficiency, storage, and smart grid technology and other base-load technologies that manage renewable energy intermittency;¹⁰² and (iv) investing in infrastructure and greater diversification. IDB Invest will prioritize hospitality investments, supporting the adoption of sustainable business models, prioritizing interventions that tackle water and sanitation challenges in tourism projects and the adoption of technology. This will be complemented by investments in the agribusiness and manufacturing segments, as well as in ports and airports to improve air and maritime connectivity.¹⁰³
- 3.21 **Alignment.** The interventions proposed in this section align with the Update to the IDB Institutional Strategy 2010–2020 (GN-2788-5) by providing adequate knowledge and innovation ecosystems, fostering inclusion in financial markets, inserting firms into value chains; providing inclusive infrastructure and infrastructure services, addressing the economic and social impacts of climate change adaptation and mitigation, promoting gender equality and diversity, and strengthening institutional capacity and the rule of law. The priorities outlined here are also aligned with the priority segments of the 2018 IDB Invest Business Plan Update (CII/GA-77-4)

¹⁰⁰ The Barbados Water Authority is managed by the Executive Chairman, a position created by the Prime Minister in 2010 that does not exist in the institution's Act. Performance data are not available or outdated. Moreover, as no board members are autonomous from the government, there is no independent economic analysis of the water authority's rates as would be the case in other regulatory agencies such as the Fair-Trading Commission. Castalia Strategic Advisors, Governance Position Paper on the Caribbean Water and Sanitation Sector. 2017. (Unpublished).

¹⁰¹ These measures will also contribute to the government's intention of achieving an economy-wide reduction in greenhouse gas emissions of 44 percent by 2030. In absolute terms, this translates into a reduction of 23 percent compared with the baseline year, 2008. Barbados National Determined Contribution.

¹⁰² Renewable energy could be incorporated onto the grid with a utility scale wind farm (40MW), biomass cogeneration (20MW), solid waste to energy (13.5MW), solar water heating (19.7MW) and solar photovoltaic (20MW). This could be supported by a series of measures on energy efficiency measures, including efficient lighting, air conditioners, premium motors, chillers, variable frequency drives and power monitors. Moore et al. Identifying Inconsistencies in Long-Run Development Plans: The Case of Barbados' Vision for Energy Development. Central Bank of Barbados Working Paper No WP/15/13. 2015.

¹⁰³ Complementary investments in Barbados Port will be required, particularly in trade facilitation measures and systems (e.g. Port Community Systems), to ensure these segments thrive.

in strengthening capacities to support the corporate segment, leveraging resources through the financial system, infrastructure development, and fostering PPPs.

D. Cross-cutting Issues

- 3.22 Due to their importance for growth and development in Barbados, and to their cross-cutting nature across all three pillars, the IDB Group's interventions will prioritize issues on climate change, and natural disasters, as well as gender and diversity in their project design.
- 3.23 **Climate change and natural disasters.** The effects of climate change pose additional risks to infrastructure and could undermine economic growth, especially in the tourism industry.¹⁰⁴ More investment in resilient infrastructure is thus necessary,¹⁰⁵ particularly given that a large proportion of infrastructure assets are located within proximity to the sea. Probable losses from a 100-year return period coastal storm surge and hurricane events are estimated to range between US\$0.75 and US\$1.5 billion.¹⁰⁶ ¹⁰⁷ The government's capacity to react to a potential catastrophic natural disaster has also been inhibited in recent years primarily by its financial challenges.¹⁰⁸ The additional burden that a natural disaster would pose on government finances could thus have negative externalities on the government's fiscal stance and its adjustment efforts. Based on these challenges, the IDB Group proposes to support the government's plans for addressing climate change impacts by: (i) conducting disaster risk assessments that consider climate change when expanding or rehabilitating public infrastructure; (ii) adopting early warning systems for natural disasters; (iii) developing blue spot analyses in infrastructure investments to support decision makers and improve resilience; (iv) promoting sustainable construction methods and materials that support energy and water efficiency, resilience, and an integrated approach to manage built infrastructure (highlighting the Roofs to Reefs program); (v) climate-proofing utility networks; (vi) capacity building to factor in climate impacts within the decision making process; and (vii) supporting programs and actions that are conducive to a climate-resilient approach, highlighting those that protect and augment freshwater resources and reduce land-based sources of pollution that affect coral reefs.¹⁰⁹ **Gender and diversity.**

¹⁰⁴ Most tourism infrastructure is located near the coast and the sector is largely reliant on high-end beach tourism. Simpson, Quantification and Magnitude of Losses and Damages Resulting from the Impacts of Climate Change: Modelling the Transformational Impacts and Costs of Sea Level Rise in the Caribbean. 2010. (Key Points and Summary for Policy Makers document).

¹⁰⁵ Adverse weather conditions already require greater maintenance of the infrastructure stock and this is likely to increase going forward.

¹⁰⁶ Baird. Draft Risk Report, A Report Prepared under the National Coastal Risk Information Planning Platform Consultancy for the Government of Barbados under IDB Loan 2463-OC-BA Coastal Risk Assessment & Management Program. 2017.

¹⁰⁷ For example, around 288 km of the Barbados road network is vulnerable to climate change impacts due to its being located near the coast and in low-elevation coastal zones. Economic Commission for Latin America and the Caribbean. 2011. An assessment of the economic impact of climate change on the tourism sector in Barbados. Retrieved from: https://repositorio.cepal.org/bitstream/handle/11362/38602/LCCA RL314_en.pdf?sequence=1&isAllowed=y

¹⁰⁸ Evidence shows that during natural disasters, government spending tends to increase, budget balances usually worsen, and public debt typically rises. See, for example, Keen et al. (2003) and Cavallo and Noy (2009).

¹⁰⁹ In the energy sector, the IDB Lab will support investments in the areas of sustainable seafood, conservation-related economic activities, payment of ecosystem services, sustainable coastal infrastructure and access to energy through

Sectors of the population, such as victims of gender-based violence and people with disabilities, are still underserved in the social protection system. Although an estimated 24 percent of total homicides relate to intimate partner homicides,¹¹⁰ there is currently only one shelter that receives a subsidy from the government, and there are no government-run shelters in the country.¹¹¹ More gender-disaggregated data are required to better analyze gender gaps, as well as the impact of social programs on women and female-headed households. In the private sector, more women-led than men-led businesses reported access to finance as the main obstacle to private sector operations in the PROTEqIN survey.¹¹² Persons with physical disabilities also face challenges, due to a lack of appropriate infrastructure and support, as a result of insufficient suitable housing, public transportation, and access ramps.¹¹³ Consequently, the IDB Group will include gender and diversity components in its operations, prioritizing the generation of data and emphasizing social protection and private sector programs, particularly in promoting greater access to finance for women-led businesses.

E. Dialogue Areas

- 3.24 **The IDB Group will continue its dialogue with the Government of Barbados in the areas of urban management and health.** Barbados's rapid urbanization process and expansion of its built-environment footprint has created sustainability and accessibility challenges. It has also resulted in poor urban planning, denser residential areas on the outskirts of Bridgetown,¹¹⁴ and worsening congestion. There is limited scope for public transportation to ease traffic flows, as urban planning has not been thoroughly synchronized with public transportation systems.¹¹⁵ The IDB Group will prioritize a dialogue with the Government of Barbados centered on more sustainable urban development, including the promotion of public transportation system improvements and making use of big data and intelligent systems for traffic management

the recently approved equity investment operation with the Althelia Sustainable Ocean Fund. In agriculture, the Climate Smart Agriculture initiative will further implement technologies and adopting value chain approaches to increase market access, boost productivity, and implement adaptation strategies to minimize the damage caused by climate change.

¹¹⁰ Value for 2013. This value is likely underestimated, as half of the respondents of the Social Survey on Violence did not believe that either spanking with the hand or objects falls under the category of physical violence. <http://caribbean.unwomen.org/en/caribbean-gender-portal/barbados>

¹¹¹ Caribbean Development Bank. 2016. Country Gender Assessment for Barbados.

¹¹² This is consistent with Piras et al.'s (2013) findings that firms with a predominant presence of women owners in the Caribbean face more credit constraints than men-led businesses. Piras et al. 2013 report that firms with a predominant presence of women owners across a sample of firms in Jamaica, Trinidad and Tobago and Barbados, are 2.1 percentage points more likely to be credit-rationed by the banking system than other firms in the sample, even when netting out the effect of riskiness, quality, and other company observable characteristics. In the PROTEqIN 2014, 18.8 percent of women-led businesses report access to finance as their greatest constraint, compared to 11.1 percent of men-led businesses. Of the businesses that did have a loan or credit line, the value of the collateral for women-led businesses was also higher than that for men-led businesses.

¹¹³ United States Department of State. 2017. 2016 Country Reports on Human Rights Practices – Barbados. Available at: <http://www.refworld.org/docid/58ec8a7013.html>

¹¹⁴ The process of urbanization in Barbados is becoming unsustainable, following an increase in urban land of 64 percent between 1991 and 2013.

¹¹⁵ Antilles Economics. Understanding Travel within the Greater Bridgetown Area, Barbados. Washington DC: IDB, Emerging and Sustainable Cities Initiative. 2017.

modernization.¹¹⁶ The IDB Lab will also contribute to these initiatives through its Inclusive Cities program.¹¹⁷ In the health sector, health services are centered on costly curative tertiary care, with the Queen Elizabeth Hospital receiving approximately 33 percent of total health spending, compared to around 39 percent received by the rest of the health facilities in the country.¹¹⁸ As with other social services, there is a need to invest in further digitalization in the sector, which would reduce the time and cost of service provision. The dialogue in the health sector will thus center on the organization of health services with a greater emphasis on primary care¹¹⁹ and the digitalization of health records and data collection for a leaner and more integrated service provision. This will be complemented by IDB Invest's support to increasing the quality and coverage of health systems through the private sector.

IV. PROJECTED LENDING FRAMEWORK

- 4.1 **The IDB Group proposes an indicative baseline sovereign guaranteed financing scenario of US\$300 million for the 2019–2023 period.** This represents an average of US\$60 million per year.¹²⁰ The IDB Group plans to provide budget support to the government, complementary to the IMF's four-year Extended Fund Facility. During this period, a wide range of lending instruments will become available, including the special development lending instrument, which will accompany the IMF program. In addition, the Bank will explore the use of the contingent credit facility instrument to provide financing to respond to a natural disaster emergency. The higher level of approvals and the wider range of financial instruments should lead to higher disbursements and positive net flows until 2023, when disbursements taper off. By 2023, the IDB Group debt will amount to 8 percent of gross public debt and 26 percent of public external debt. Non-sovereign guaranteed operations are expected to increase, with IDB Invest playing an increasing role in Barbados.

V. STRATEGY IMPLEMENTATION

- 5.1 **Country systems.** The Bank will continue to rely on its fiduciary supervision using the country's budgetary, treasury, and accounting systems for 100 percent of operations, together with a partial use of the reporting and the services of the Auditor General for external control. With regard to procurement, the Bank will continue to use its own procurement policies (GN-2349-9 and GN-2350-9) for all national and international selection processes, along with its standard bidding documents. During the 2019–2023 CS, strengthening national systems will be a strategic objective, with the purpose of closing gaps with international standards. Another objective is continued dialogue with the Government of Barbados, namely, (i) the Barbados Audit Office to provide external audit services for new operations; (ii) the Accountant General to

¹¹⁶ This will benefit women, the elderly, people with physical disabilities, and lower-income earners, who are particularly dependent on the public transportation system.

¹¹⁷ This aims to improve the quality of life for poor and vulnerable households in urban areas, including the sharing economy and circular economy models.

¹¹⁸ 2013 National Health Accounts, World Health Organization.

¹¹⁹ Based on international evidence, supporting the reorganization of health services toward primary care could improve health outcomes, reduce the growth in costs, and lower inequality. See Stigler, et al. No universal health coverage without primary health care. *The Lancet* 387(10030): 1811. 2016.

¹²⁰ This scenario could potentially be adjusted based on the IDB Group's resource availability, the country's needs, the progress of the reform, and the participation of other multilateral institutions.

improve the project module in the Smart Stream System for financial reporting; and (iii) the relevant authorities to support the enactment of a new procurement legislation, including the implementation of the e-procurement platform and the creation of a claims procedure, among others.

Systems	Level of Use in Number of Projects (%)	
	2017	2023
Budget	100	100
Treasury	100	100
Accounting & Reporting	33	33
Internal Audit	0	0
External Audit	17	17
Information System	0	0
Price Comparison/ shopping	0	0
Individual Consulting	0	0
Partial NCB	0	0
Advance NCB	0	0

5.2 **Coordination within the IDB Group.** Coordination among the IDB, IDB Invest, and the IDB Lab will observe the following parameters: (i) joint implementation of this strategy; (ii) planning of joint engagement missions with the authorities, especially in areas that require policy reforms and/or show evident synergies for collaborative work; (iii) organization of joint dissemination activities; (iv) maximization of operational synergies; and (v) joint knowledge products that are relevant for operational dialogue with clients.

5.3 **Donor coordination.** Several bilateral and multilateral international development agencies are located in Barbados, as the country is a regional center for all the Eastern Caribbean. This offers space for collaboration. The IDB Group has maintained continuous dialogue with other partners such as the Caribbean Development Bank, the CAF, the United Nations, and the European Union. In particular, the Bank has developed a strong partnership with the Caribbean Development Bank through the Barbados Country Office. Under the cooperation agreement between the two institutions, the IDB Group has developed different lending and non-lending operations in Eastern Caribbean countries. In the case of global loans to the Caribbean Development Bank, the IDB Group provides technical and fiduciary expertise. There is also strong coordination with the European Union, as reflected in the co-financing of the Bank's Public Sector Smart Energy Program, as well as with China, which co-financed two operations approved during the 2015–2018 CS period (*Enhanced Access to Credit for Productivity Project* (BA-L1034); and *Strengthening Human and Social Development in Barbados* (BA-L1032)). Moreover, the Barbados Country Office hosts the multi-donor initiative 'Compete Caribbean' co-financed by Canada, the Caribbean Development Bank, the United Kingdom, and the IDB Group. In addition, the Caribbean Climate-Smart Accelerator will be an important partner in supporting interventions related to climate resilience. Given Barbados's current macroeconomic situation, the planned international coordination will allow for more effective information exchange and coordination between the international financial institutions and donor

organizations in the country. The government will lead the direction of the support and the coordination of actors. Yet this group will be critical to better arrange and channel the wide support provided during fiscal consolidation by different multilateral institutions, including the IMF, the IDB Group, the Caribbean Development Bank, CAF, the European Investment Bank, and tentatively the World Bank.

VI. RISKS

- 6.1 **Macroeconomic Risks.** The government's fiscal stance will largely depend on the successful and timely implementation of the reforms proposed in BERT and agreed to in the Extended Fund Facility. Yet fiscal consolidation is likely to have negative effects on growth and social outcomes. Additional macroeconomic risks stem from (i) shocks to external partners in key sectors such as tourism and financial services industries, particularly in the United Kingdom, the United States, and Canada; (ii) higher international oil prices; (iii) higher-than-expected U.S. and domestic interest rates; and (iv) limited access to new financing.¹²¹ To minimize these risks, the CS aims to support the country's efforts to strengthen its public finances and foster a sustainable path for fiscal policy, supporting social programs that protect the vulnerable and boosting productivity. In addition, the Bank will closely monitor the aforementioned risks by means of the macroeconomic monitoring instruments at its disposal.
- 6.2 **Execution risks.** The CS period will be marked by the government's diverging short- and medium-term needs and an increased demand to implement the government's planned reforms. The main execution risks can thus be divided into two categories. First, traditional institutional execution arrangements could prove insufficiently flexible to respond to execution needs. Second, the government's ambitious reform program will increase the Public Investment Unit's workload, which may negatively affect the performance of the executing portfolio. To mitigate these risks, the IDB Group will continue supporting the Public Investment Unit and the Project Executing Units for the effective implementation of the investment loan portfolio, strengthening their project and fiduciary capacities, as well as supporting innovative systems and procedures for execution. The latter objective will be realized through the extension of the PEU-HUB, an integrated project execution platform and by exploring alternative forms of execution with the Public Investment Unit. IDB Invest will closely coordinate with the IDB, joining efforts to improve the environment for private sector development in Barbados.
- 6.3 **Risks stemming from natural disasters and adverse effects of climate change.** A significant natural disaster could worsen the country's public finances and the government's response capacity amid the current fiscal challenges. Adverse effects from climate change could also pose a significant threat to the tourism sector, given the proximity of much of the infrastructure stock to the coast.¹²² The Bank proposes to continue its support and implementation of measures to reduce disaster risk and adapt to climate change, by providing technical assistance under the disaster risk management strategy (GN-2354-5) and the Climate

¹²¹ This is particularly the case since the suspension of payments to international creditors and the downgrades in June and August 2018 by Standard & Poor's.

¹²² These could include both sudden adverse weather effects, such as hurricanes and tropical storms, and longer-term effects, such as sea level rises.

Change Sector Framework (GN-2835-3). In addition, the country can explore the Bank's contingent credit financing options for natural disasters, which would provide flexible financial resources to accelerate rehabilitation and recovery initiatives in the case of extreme weather events.

ANNEX I: BARBADOS: COUNTRY STRATEGY RESULTS MATRIX

Government's priorities	IDB strategic area	IDB strategic objective	Expected outcomes	Indicators	Baseline values	Source
Short-term aim of setting fiscal policy on a more sustainable path. Long-term vision pillar 3: making government work for all Bajans	1. Fostering fiscal sustainability and a more efficient public sector	1.1 Support fiscal consolidation through expenditure curbing and revenue enhancing measures.	Lower expenditures	General government expenditures as percent of GDP	32.8 percent (FY2017/18)	Ministry of Finance
			Higher revenues through greater tax collection	Tax collection as percent of GDP	26.6 percent (FY2017/18)	Ministry of Finance
		1.2 Strengthen the institutional framework by supporting public sector management and public financial management systems	Improved public financial management structures	Index for the Public Financial Management - PET PRODEV	2.5 (2013)	IDB PET-PRODEV tool
			A more efficient civil service	Civil Service Development Index	43 (2018)	IDB Civil Service Development Index

		1.3 Promote a greater digitization of government	A greater digitalization of public services	E-Government Development Index	0.7229 (2018)	https://publicadministration.un.org/egovkb/en-us/Data/Country-Information/id/15-Barbados
				Online Service Sub-Index	0.6667 (2018)	https://publicadministration.un.org/egovkb/en-us/Data/Country-Information/id/15-Barbados
Pillar 1: A better society: making people matter	2. Safeguarding social outcomes	2.2 Strengthen the performance of social programs	Reduce vulnerability, highlighting female-led households	Percentage of households categorized as vulnerable	11 percent (2016-2017)	BSLC
				Percentage of females	12.9 percent (2016-2017)	BSLC

				categorized as vulnerable		
		2.1 Better align workers' skills to the needs of the market	Improve workers' skills' supply and demand match	Number of people who report an inadequately trained workforce as the most serious obstacle to private sector operations	17.9 percent (2014)	PROTEqIN 2014 Enterprise Survey
Pillar 2: Rebuilding the economy, financing national transformation and Pillar 4: Fixing our broken infrastructure repair and renewal	3. Promoting higher productivity	3.1 Strengthen the regulatory environment for a more open and better business climate, promoting innovation and a greater use of technologies	Ease the process of setting up a business	Time required to register a business	15 days (2018)	World Bank, Doing Business Report
			Increase the economy's openness	Prevalence of trade barriers, index value	4.6 (2016-2017)	Global Competitiveness Report
			Increase the number of innovative firms	Percentage of innovative firms ⁱ	30 percent (2014)	PROTEqIN 2014 Enterprise Survey
		3.2 Facilitate access to finance for the private sector	Increase access to finance for firms, particularly for female-led businesses	Credit to the private sector, as percentage of GDP	59.9 percent (2017)	World Bank, World Development Indicators

			Ratio of men-led to women-led firms that report access to finance as their greatest constraint to operations ⁱⁱ	0.76 (2014)	PROTEqIN 2014 Enterprise Survey	
		3.3 Reduce the country's dependence on imported fossil fuel	Increased contribution of clean energy sources	Number of installed megawatt contribution from clean energy sources	25MW (2018)	Ministry of Energy and Water Resources
		3.4 Promote private sector engagement that encourages greater productivity, as well as in resilient infrastructure investments	Increase investments in resilient infrastructure	Capital spending, as percentage of GDP ⁱⁱⁱ	1.7 (FY2017/18)	Central Bank of Barbados
			Improved tourism sector productivity	Travel and tourism multiplier effect ^{iv}	2.1 (2017)	Barbados. The Economic Impact of Travel and Tourism Report www.wtfc.org

NB: The non-extreme poverty line is valued at Bd\$642.52, vulnerable populations are households with monthly per capita consumption 1.25 times above the non-extreme poverty line.

ⁱ Percentage of firms that have introduced a new product or process in the last three years – and the last measurement

ⁱⁱ Calculated as the ratio of the percentage men-led firms that reported access to finance and cost of finance as their main constraint, over the percent of women-led firms that reported access to finance as their main constraint.

ⁱⁱⁱ Capital spending is used as a proxy for resilient infrastructure investment. For this, it is assumed that infrastructure investments adhere to the required quality and standards regarding resilience to adverse weather conditions.

^{iv} This is calculated as total contribution (direct and indirect effect) over direct contribution of the tourism sector. Data is available from www.wtfc.org on an annual basis.

Country Systems Matrix

Strategic Objective	Expected Outcome	Indicator	Unit of Measure	Baseline	Baseline Year	Main Target	Timing	Alignment to CRF
Strengthening of national systems	Promote closing gaps with international financial reporting standards through training sessions	Numbers of training provided	Number of trainings	0	2018	4	At the end of the CS Period	-Institutional capacity and rule of law -Productivity and innovation -Social inclusion and equality
	Support the development of the Procurement Framework bill	Number of Assessments to Procurement bill	Number of assessments	0	2018	2	At the end of the CS Period	-Institutional capacity and rule of law -Productivity and innovation
	Promote adequate implementation of procurement legislation once enacted	Number of trainings provided	Number of trainings	0	2018	4	At the end of the CS Period	-Institutional capacity and rule of law -Productivity and innovation

ANNEX II: INDICATIVE LENDING FRAMEWORK

Net Flow of IDB Convertible Currencies

(US\$ million)

	2013	2014	2015	2016	2017	2018e	2019	2020	2021	2022	2023	Average 2019-2023	Total 2019-2023
Approvals	0	35	35	34	20	100	75	55	55	55	60	60.0	300.0
a. Loan Disbursements	23.7	31.3	26	21.4	12	115	55	55	55	55	55	55.0	275.0
<i>Investment disbursements</i>	23.7	31.3	26	21.4	12	15	15	15	15	15	15	15.0	75.0
<i>SDL disbursement</i>	0	0	0	0	0	100	0	0	0	0	0	0.0	0.0
<i>PBL disbursements</i>	0	0	0	0	0	0	40	40	40	40	40	40.0	200.0
b. Repayments principal	18.5	15.4	16.1	19.4	23.8	17.9	21.7	22.5	35.4	46.2	46.5	34.5	172.3
c. Net Loan Flow (a-b)	5.2	15.9	9.9	2	-11.8	97.1	33.3	32.5	19.6	8.8	8.5	20.5	102.7
d. Subscriptions & Contributions	0.5	0.6	0.5	0.5	0	0	0	0	0	0	0	0	0.0
e. Interests & Charges 1/	4	3.8	3.8	6.2	6.5	8.7	12.4	12.7	12.3	11.5	9.9	11.8	58.8
f. Net Cash Flow(c-d-e)	0.7	11.5	5.6	-4.7	-18.3	88.4	20.9	19.8	7.3	-2.7	-1.4	8.8	43.9
IDB Debt	243.0	258.7	268.5	270.4	258.7	355.8	389.1	421.6	441.2	450.0	458.5		
IDB Debt/Multilateral Debt	69%	61%	55%	52%	51%	48%	47%	52%	56%	60%	62%		
IDB Debt/Public External Debt	15%	15%	16%	16%	16%	20%	21%	23%	24%	26%	26%		
IDB Debt/Gross Public Debt	4%	4%	4%	4%	3%	5%	6%	7%	7%	7%	8%		
IDB Debt/GDP	5%	6%	6%	6%	6%	8%	8%	9%	9%	9%	9%		

ANNEX III: SELECTED ECONOMIC AND SOCIAL INDICATORS FOR BARBADOS, 2013–2017

Social and Demographic Indicators (most recent year)					
GDP (US\$ millions), 2017	4,989.5	Adult literacy	99.7		
Per capita GDP (US\$ thousand), 2017	17.9	Poverty rate (percent), 2016	17.2		
Life expectancy at birth in years (2017)	76.1	Population (thousands), 2017	281		
Rank on the UNDP Development Index (2017)	58	Unemployment rate (percent), 2017	10		
Economic Indicators					
	2013	2014	2015	2016	2017p
	(Annual percentage change, unless otherwise indicated)				
Real Sector					
Real GDP (% change)	-1.4	-0.2	2.2	2.3	-0.2
Nominal GDP (% change)	1.5	0.4	0.6	2.4	3.1
Inflation (end of period)	1.8	1.8	-1.1	1.5	4.5
Unemployment	11.6	12.3	11.3	9.7	10.0
	(In percent of GDP, unless otherwise stated)				
External Sector					
Exports of goods and services	42.0	40.3	41.4	43.0	42.1
Imports of goods and services	45.9	45.0	43.0	42.0	40.6
Foreign direct investment (FDI)	3.3	6.7	5.5	3.4	3.1
Current account balance	-8.4	-9.2	-6.1	-4.3	-3.8
Gross international reserves (US\$M)	572.1	527.5	464.7	341.8	204.9
In months of next year's imports	3.2	3.0	2.7	2.0	1.2
Central Government Operations					
	2013/2014	2014/2015	2015/2016	2016/2017p	2017/2018e
Revenue and grants	25.0	25.8	25.7	28.0	28.5
Total expenditure	35.3	33.4	34.8	33.4	32.8
Overall balance	-10.3	-7.6	-9.0	-5.3	-4.3
Primary balance	-3.7	-0.5	-2.0	2.2	3.3
Memorandum items:					
	2013	2014	2015	2016	2017p
Gross public sector debt (\$Bd)	12322.1	12888.0	13646.0	14652.7	14829.7
In percent of GDP	131.7	137.2	144.4	151.4	148.6
Gross central government debt (\$Bd)	10891.2	11462.3	12260.2	13414.6	13685.7
External debt	28.8	31.3	31.1	30.0	28.5
Domestic debt	87.7	90.7	98.6	108.6	108.6
Nominal GDP (\$Bd M)	9354.5	9392.7	9450.9	9681.3	9979.0

Sources: Central Bank of Barbados, Ministry of Finance, UNDP Human Development Report (2018), World Bank World Development Indicators, IMF World Economic Outlook (April 2018)

Notes: Gross Public Sector Debt = Gross Central Government Debt (excluding SDRs) + Contingent Liabilities + Arrears
Gross Central Government Debt = Domestic Debt (inclusive of NIS) + External Debt (excluding SDRs)

ANNEX IV: COUNTRY STRATEGY 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."

COUNTRY STRATEGY: Barbados, 2019–2023

STRATEGIC ALIGNMENT

Refers to the degree to which the design and objectives of the CS are consistent with the country development challenges and with the government's development plans and priorities.

EFFECTIVENESS

Measures whether the country strategy is likely to achieve its intended objectives, through an examination of three 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; and (iii) the use and build-up of country systems.

Effectiveness dimensions	
I. Country Diagnosis - Country Development Challenges (CDC)	Yes/No
- The CDC is comprehensive / holistic / complete	Yes
- The CDC clearly identifies the main development challenges	Yes
- The CDC presents magnitudes of the main development challenges that are based on empirical evidence	Yes
II. Priority Areas Diagnostics	%
- That clearly identify and dimension, based on empirical evidence, the priority area's specific constraints and challenges	100%
- That clearly identify and dimension, based on empirical evidence, the main factors or causes contributing to the specific constraints and challenges	90%
- That provide corresponding policy recommendations	100%
III. Results matrix*	%
- The strategic objectives are clearly defined	100%
- The expected outcomes are clearly defined	90%
- The strategic objectives and expected results that are directly related to the main constraints identified in the Diagnosis	100%
- The indicators are outcome indicators and are SMART	90%
- The indicators have baselines	100%
IV. Vertical logic	Yes/No
- The CS has vertical logic	Yes

* The Results Matrix is composed of indicators that are meaningful to, and capture progress toward, the expected results. The expected results stem from the strategic objectives.

ANNEX V: MANAGEMENT'S RESPONSE TO COUNTRY PROGRAM EVALUATION

Recommendation	Management Response
<p>Recommendation 1: Explore with the country's new administration the possibility of supporting the fiscal consolidation process in the following ways:</p>	
<p>a. If there is credible reform commitment, provide technical assistance, funding, and support for reforms through different Bank instruments such as Special Lending Programs or policy development lending. Ideally, this support would be in the context of an IMF program, advancing structural reforms in sectors that directly affect the key development challenges identified in this document, taking into consideration GOB's preferences. The cancellation of existing and underperforming operations and the use of these resources to finance new operations could be considered.</p>	<p>Agreed As part of its ongoing dialogue with the current authorities, Management has discussed and will continue to discuss budget support through the different Bank instruments. In addition, in the context of the country strategy preparation and implementation process, Management will explore with the authorities the possibility of policy development lending to promote structural reforms.</p>
<p>b. In the absence of a credible reform commitment, support fiscal consolidation efforts with investment lending and by streamlining and, if necessary, reassigning the underperforming portfolio.</p>	<p>Agreed As part of its ongoing dialogue with the current authorities on the current portfolio, Management will discuss options to support fiscal consolidation efforts.</p>
<p>c. Provide technical cooperation to support any potential diagnostic and action plan to reform tax policy and administration in a comprehensive way, including an updated and contextualized study on tax expenditures.</p>	<p>Agreed As part of its ongoing dialogue, Management has discussed and will continue to discuss with the authorities fiscal matters including possible technical cooperation support to prepare an action plan for a tax policy and administration reform.</p>
<p>Recommendation 2: Explore with the country's new administration the possibility of:</p>	
<p>a. Undertaking a profound analysis of the factors underlying the country's weak legal and institutional framework and preparing an action plan to address institutional bottlenecks and reduce the costs of doing business for the public and private sectors. The analysis could include a study on the economic costs of the Barbados bureaucracy and legal system.</p>	<p>Agreed As part of its ongoing dialogue with the current authorities, Management has discussed and will continue to discuss legal and institutional bottlenecks. The dialogue with the new Administration will determine to what degree IDB Group may be called on to play an active role in analyzing and preparing an action plan to address these bottlenecks and reduce the cost of doing business. This would include an analysis of the cost of the bureaucracy and the legal system.</p>
<p>b. Creating PEUs with regulations like those of statutory agencies to accelerate their creation and facilitate their strengthening with external consultants.</p>	<p>Agreed</p>

Recommendation	Management Response
	As part of its ongoing dialogue with the authorities, Management will discuss institutional capacity constraints focusing on project execution challenges and their underlying causes. The dialogue with the current Administration will determine whether the government is interested in exploring alternative executing mechanisms (i.e., like those in statutory agencies) and how IDB Group may play an active role.
c. Adjusting project implementation periods to country realities.	Agreed Management will explore adjustment to project implementation periods in discussion with the authorities, on a case by case basis, in the context of country realities.
Recommendation 3: Include in the CS a clear and monitorable strategy on how the IDBG institutions will work together to address constraints to private sector investment (e.g., fiscal, sanitation, regulatory framework, business environment, and energy) and reduce red tape issues, including completing the unfinished agenda under the Barbados Competitiveness Program.	Agreed As part of its ongoing dialogue with the current authorities, the IDBG will discuss constraints to private sector investment and red tape issues. As, it is jointly prepared by IDB, IDB Invest, and the IDB Lab, the CS provides an instrument to address development constraints, including those related to private sector investment and business environment issues. As such, a separate action plan therefore would not be required. The CS results matrix will allow expected results to be monitored for each strategic objective defined and agreed to with the government.