

BARBADOS

A TIME FOR CHANGE

COUNTRY DEVELOPMENT
CHALLENGES

Laura Giles Alvarez
Zandra Gomes
Juan Pedro Schmid
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An aerial photograph of Barbados, showing the coastline, turquoise waters, and a dense urban area with many buildings and green spaces. The image is used as a background for the report cover.The IDB Group logo, featuring a stylized blue and white circular icon followed by the text "IDB Group" in a bold, sans-serif font.

IDB Group

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ACRONYMS

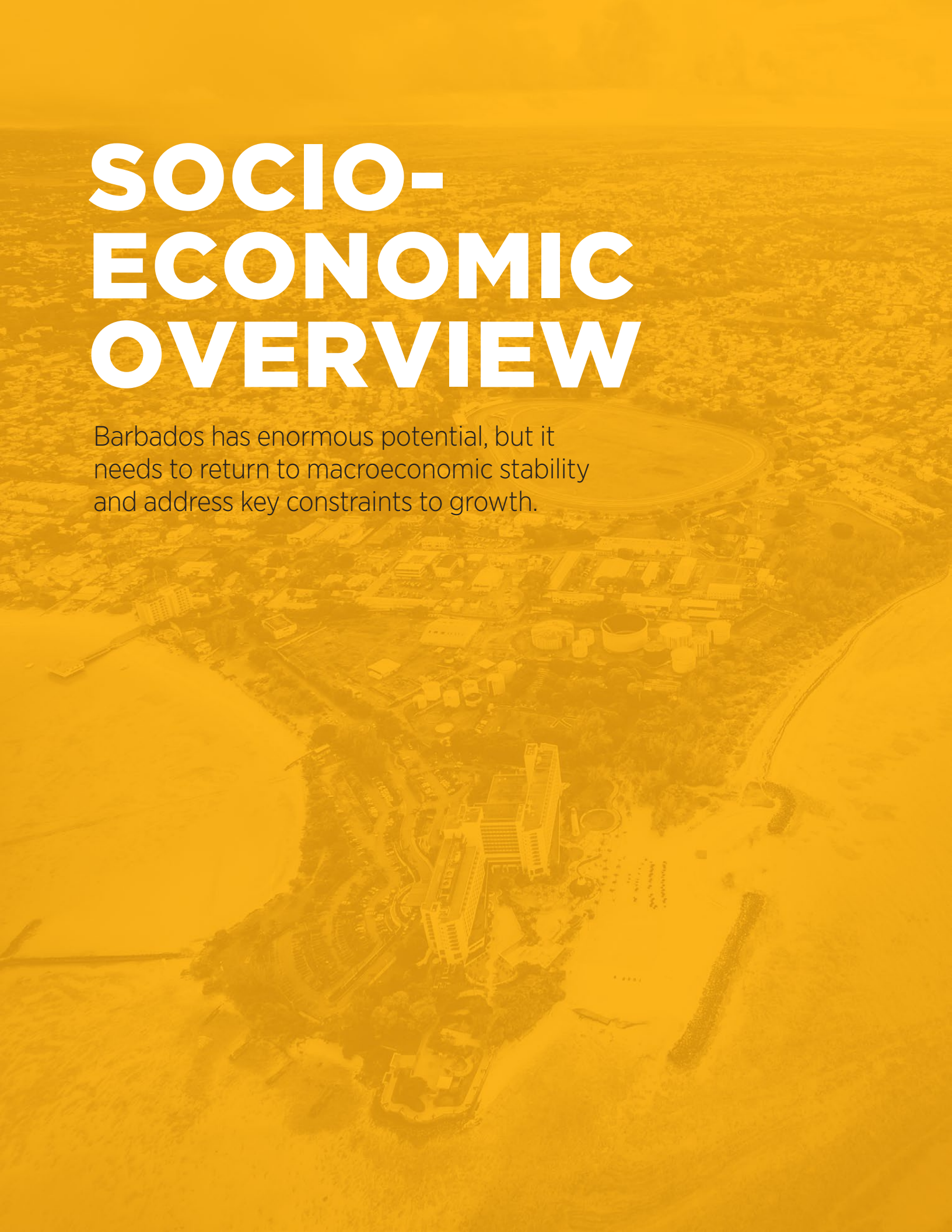
CBB	Central Bank of Barbados
DBR	Doing Business Report
FDI	Foreign Direct Investment
GCI	Global Competitiveness Index
GCR	Global Competitiveness Report
GDP	Gross Domestic Product
GII	Gender Inequality Index
HDI	Human Development Index
HDR	Human Development Report
IDB	Inter-American Development Bank
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
OECD	Organisation for Economic Co-operation and Development
ROSE	Rest of Small Economies
SOEs	State-owned Enterprises
UK	United Kingdom
UNEP	United Nations Environment Programme
US	United States
VAT	Value-added Tax
WB	World Bank
WEF	World Economic Forum
WEO	World Economic Outlook
WGI	World Governance Indicators
WTO	World Tourism Organization

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SOCIO- ECONOMIC OVERVIEW

Barbados has enormous potential, but it needs to return to macroeconomic stability and address key constraints to growth.



Barbados is a small tourism-based economy with a population of approximately 280,000 persons. Tourism is the main source of foreign exchange and the driver of economic growth, accounting directly for 12 percent of real gross domestic product (GDP) and over 40 percent of GDP when considering indirect spillovers to other sectors. Such concentration makes the Barbadian economy vulnerable to fluctuations in its main tourism source markets: the United Kingdom, the United States, and Canada.

Barbados has relatively high living standards, as measured by the Human Development Index (HDI) and the Gender Inequality Index (GII).¹ The country obtained HDI and GII values of 0.80 (ranking 58th out of 189 countries) and 0.28 (60th out of 160 countries), respectively, in 2017. These values represent an improvement compared to the HDI score of 0.78 and the GII score of 0.32 recorded in 2010. Barbados' results for

both indicators are better than the Latin America and Caribbean (LAC) regional averages.² The high HDI and GII scores are the result of good social and economic indicators compared with other countries in the region, including high life expectancy at birth, high expected years of schooling, low levels of maternal mortality, high numbers of women who attained at least a secondary level of education, and high female labor force participation rates. These indicators reflect a widespread provision of social protection services, including universal access to health and education services, which are free at the point of use.

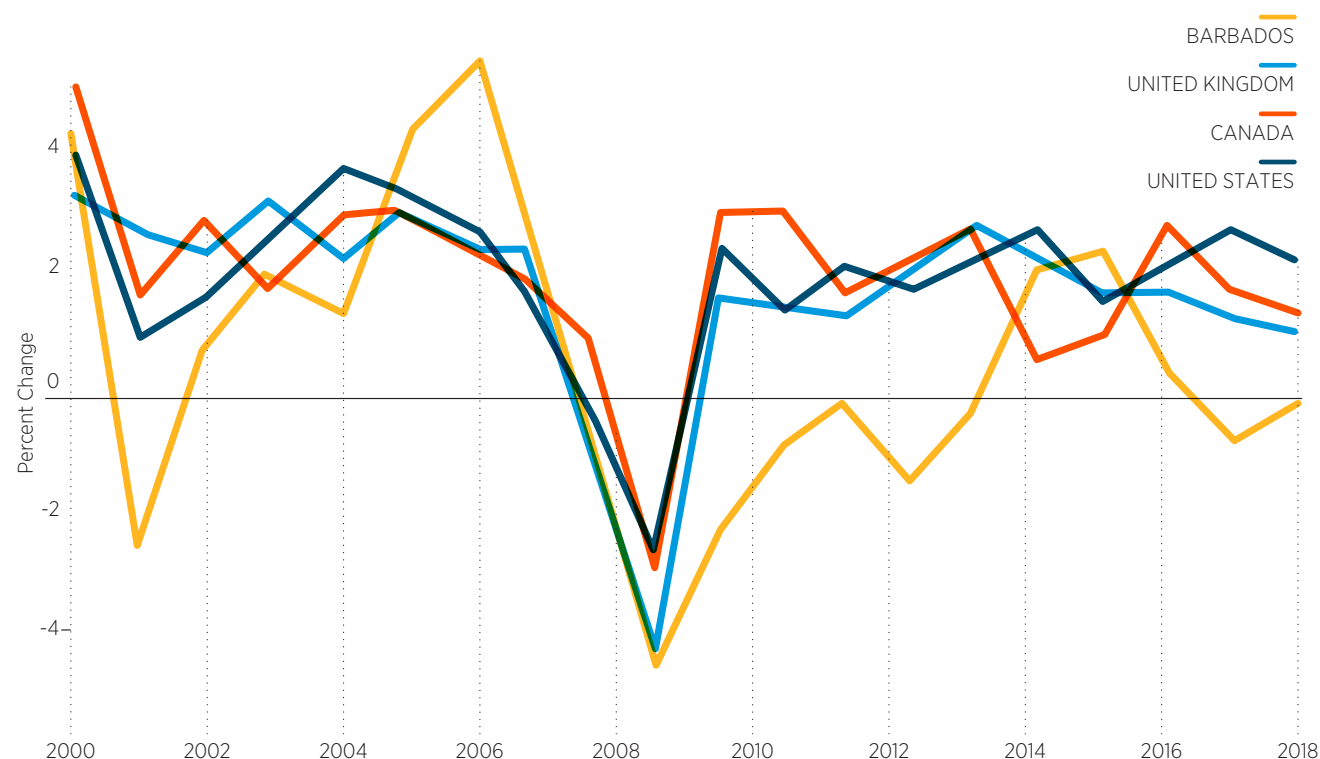
TABLE 1.1

LONG STAY ARRIVALS BY SOURCE

	Percent share of long-stay arrivals				TOTAL (number)
	U.K.	U.S.	CANADA	CARICOM	
2015	37.2	21.9	18.1	7.3	171,400
2016	38.1	22.9	16.7	7.1	183,900
2017	35.8	25.5	17.8	7.2	191,000
2018	34.8	26.9	17.9	7.2	203,300
2019	37.8	27.4	16.2	6.7	208,800

FIGURE 1.1

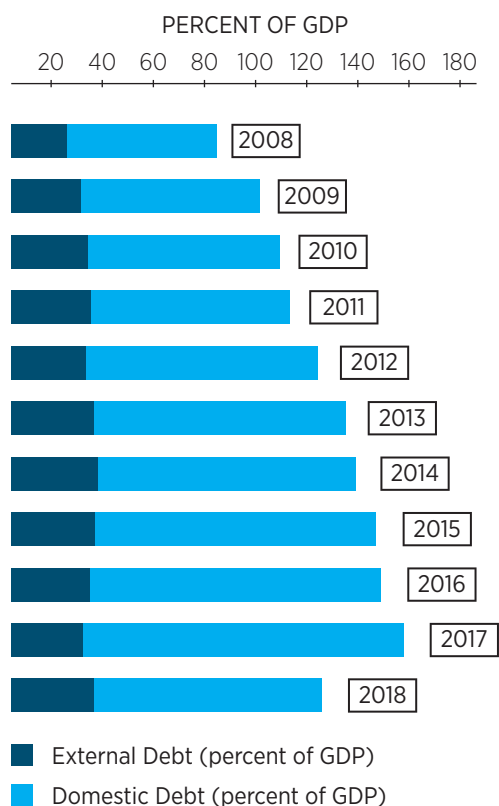
GROWTH IN BARBADOS, UNITED KINGDOM, UNITED STATES, AND CANADA



Sources: IMF (2019b) and CBB (2017).

FIGURE 1.2A

PUBLIC DEBT (PERCENT OF GDP)



Source: IMF (2019b)

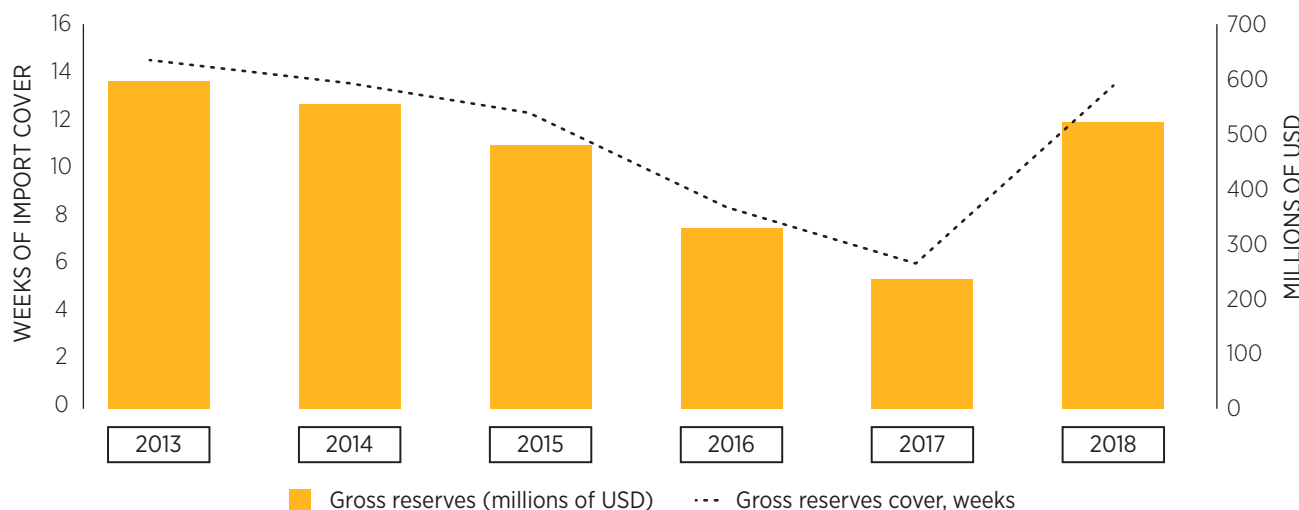
Since the 2008 financial crisis, economic growth has stagnated, with an average annual growth rate of -0.1 percent between 2010 and 2018. The country has also run recurring fiscal deficits, averaging 6.8 percent of GDP over the last decade. The combination of low growth and recurring fiscal deficits resulted in a rapid accumulation of public debt, which almost doubled from around 80 percent of GDP in 2008 to 156 percent of GDP in September 2018³. In 2018, Barbados recorded the highest debt level of all LAC countries.

A fall in international reserves increased the economy's vulnerability. At the end of 2017, international reserves reached a historic low, reaching US\$206 million (6.1 weeks of imports), compared with US\$320 million (9.3 weeks) recorded a year earlier. Maintaining an adequate level of international foreign reserves is critical given that the government is committed to maintaining its currency peg at BDS\$2 = USD\$1.

In response to macroeconomic and fiscal challenges, the Government of Barbados launched the Barbados Economic Recovery and Transformation (BERT) Program in August 2018. The reform program is aimed at restoring fiscal and debt sustainability, addressing falling reserves, and increasing growth, targeting a debt-to-GDP ratio of 60 percent of GDP by FY2033/2034. BERT also provides the base for a US\$290 million four-year Extended Fund Facility (EFF) program with the International Monetary Fund, approved in October 2018. Other international financial institutions, including the IDB, back the reforms through financing and technical assistance.

FIGURE 1.2B

INTERNATIONAL RESERVES



Source: CBB (2017).

Socio-economic indicators reflect the weak economic condition. Hand in hand with subdued economic performance, unemployment has continued on an upward trajectory, rising from 9.7 percent in 2016 to 10.1 percent in 2018. Contrastingly, the unemployment rate in 2007 stood at 7.4 percent. Similarly, between 2010 and 2016, household poverty levels increased from 15.1 percent to 17.2 percent. Individual poverty rates stood at 25.7 percent in 2016, which is high given Barbados' GDP per capita. However, the incidence of extreme poverty in the country has fallen, from 6.8 percent in 2010 to 3.4 percent in 2016. During the same period, non-extreme poverty increased from 8.4 percent to 13.8 percent. Overall female poverty stood at 21 percent compared with 14 percent for males in 2016. Despite the rise in poverty, the GINI index,⁴ which measures inequality, fell from 0.43 in 2010 to 0.32 in 2016.

Other structural constraints to the economy persist. First, the economy presents low levels of diversification, with a heavy reliance on the tourism and financial services sectors. Second, competitiveness is limited. Barbados ranks 72nd out of 138 countries on the Global Competitiveness Index (GCI) 2016-2017 (WEF, 2016). Finally, the business climate is weak, hindered by a high tax burden and excessive red tape. Inefficient government bureaucracy was ranked the second most problematic factor for doing business in the World Economic Forum's Executive Opinion Survey for Barbados. These constraints represent key challenges to private sector operations.

TABLE 1.2

BARBADOS HDI AND GII INDICATORS RELATIVE TO SELECTED COUNTRIES AND GROUPS

	HDI VALUE			GII VALUE		
	2005	2010	2017	2005	2010	2017
Barbados	0.766	0.780	0.800	0.345	0.321	0.284
The Bahamas	0.788	0.788	0.807	0.358	0.383	0.340
Latin America and the Caribbean (average)	...	...	0.758	...	...	0.386
High HDI	...	...	0.757	...	...	0.289

Source: UNDP (2018)

FIGURE 1.3A

POVERTY AND VULNERABILITY

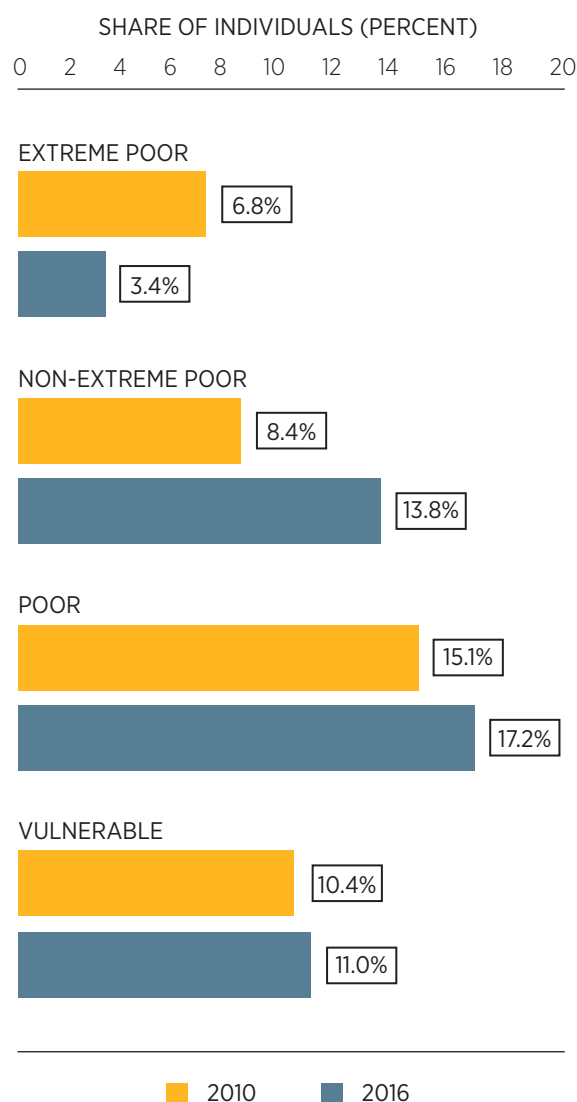
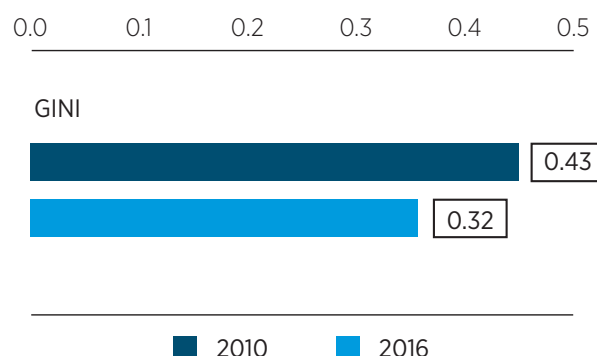


FIGURE 1.3B

GINI COEFFICIENT



Source: Barbados Survey of Living Conditions 2016-17.

An aerial photograph of a city street in Barbados, showing a mix of residential and commercial buildings, lush green trees, and a winding road. The entire image is covered with a semi-transparent blue filter. The title 'CHALLENGES TO DEVELOPMENT IN BARBADOS' is written in large, bold, white capital letters across the top half of the image.

CHALLENGES TO DEVELOPMENT IN BARBADOS

Barbados is a country with high social outcomes that has experienced a period of slow growth and macroeconomic challenges.

Given the economy's profile, this report has identified four key areas that present structural challenges to growth and development:⁵



Business Climate

An enabling business environment is key to promoting economic growth. However, Barbados ranked 129th out of 190 countries in the World Bank's 2019 Doing Business Report (DBR), reflecting weaker scores than regional peers such as Jamaica (75th) and Trinidad and Tobago (105th). High trade barriers,⁶ burdensome red tape, and regulation represent key constraints to private sector operations.



Access to Finance

According to the 2014 Productivity, Technology, and Innovation in the Caribbean (PROTEqIN) Caribbean Enterprise Survey,⁷ access to finance is a major obstacle to private sector operations. The country ranked 144th out of 190 countries for access to credit in the 2019 DBR. High collateral requirements, some features of the institutional and regulatory framework, and prevailing gender disparities are highlighted as factors that hinder access to finance. These potentially inhibit investment and private sector development.



Climate Sustainability

Barbados is vulnerable to the adverse effects of climate change, highlighting increases in atmospheric temperature, sea level rise, and changes in weather patterns. In addition to the material and personal losses generated by extreme weather events, natural disasters could exacerbate the country's already burdened fiscal stance and hinder economic growth. Natural disasters would be particularly detrimental to Barbados' tourism industry, as most of its infrastructure is located near the coast.



Macroeconomic and Fiscal Landscape

The current macroeconomic and fiscal landscape is dampening investor confidence, as evidenced by recurring credit downgrades and worsening governance indicators. Both macroeconomic and fiscal challenges, as well as the current economic reforms, have externalities on the rest of the economy and thus on development.



Business Climate

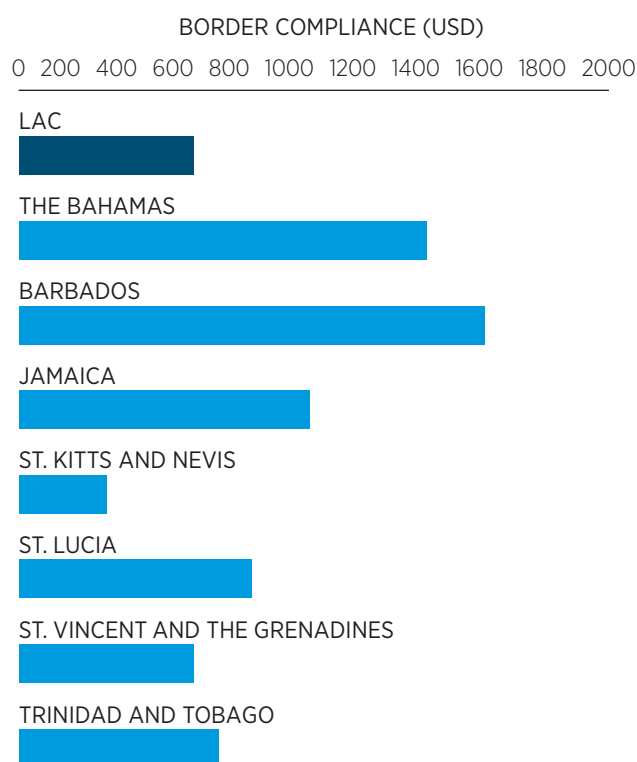
Barbados ranked 129th out of 190 countries in the DBR 2019. This was lower than regional peers such as Jamaica (75th) or Trinidad and Tobago (105th) and below the average LAC ranking of 112. The country fared worst in sub-indicators related to enforcing contracts, protecting minority investors, getting electricity, and dealing with construction permits. Barbados' score has been worsening in recent years. In 2014, the country ranked 91st out of 189 countries, performing above the LAC average rank of 100. A weak business climate negatively affects productivity and ultimately growth and development.⁸

Barbados' competitiveness, like that of many small island states, is constrained by its market size. A small

market reduces competition, resulting in lower aggregate productivity and contributing to a weak business environment. As seen in the table 1.3, Barbados scored lower than the Caribbean average on indicators for both domestic and foreign market size. Barriers to trade further hinder small markets, measured in the form of trade costs and lengthy processes to export and import goods. Barbados scored below the other countries on GCI indicators for prevalence of trade barriers,⁹ ranking 43rd out of 138, compared to Jamaica (11th), and Trinidad and Tobago (25th). The small market size also affects competitiveness. Barbados ranked 88th out of 138 countries in the domestic competition indicator for the GCI (2016-2017), lower than Jamaica (40th) and Trinidad and Tobago (82th).

FIGURE 1.4A

COST TO IMPORT: BORDER COMPLIANCE (USD)



Source: World Bank (2019).

FIGURE 1.4B

TIME TO IMPORT: BORDER COMPLIANCE (HOURS)

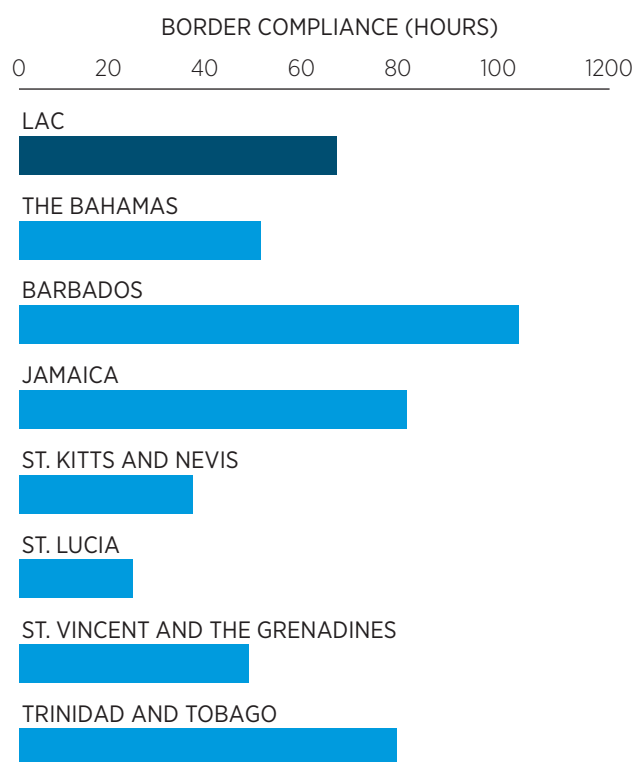


TABLE 1.3

SELECTED GCI (2016-2017) COMPETITIVENESS INDICATOR VALUES, (1-7)

	BARBADOS	CARIBBEAN
Domestic competition	4.4	4.5
Domestic market size index	1.2	2.0
Foreign market size index	2.7	2.9
Nature of competitive advantage	4.9	3.8
Business sophistication	4.2	3.4
Innovation	3.4	2.8

Source: WEF (2016).

Note: The Caribbean includes only Jamaica, Barbados, Trinidad and Tobago, and Guyana (2015), due to data limitations.

Excessive red tape further hinders Barbados' competitiveness. According to the DBR 2019, the second most important reason for the country's low performance is "inefficient government bureaucracy." For example, setting up a company in Barbados requires 8 procedures and 15 days, while in OECD countries it requires on average 4.9 procedures and 8.5 days. In addition, registering a property in Barbados takes on average 105 days to complete, compared to 22.3 days in OECD high-income economies. Low levels of digitization of public sector services and limited access to data are also likely hindering competitiveness,¹⁰ as lengthy processes, such as licensing or opening businesses, add costs for firms and adversely affect the business climate.

Although Barbados has the underlying structures in place, such as a good education system and high capacity of firms to adapt to new technologies, it scores lower in indicators relating to innovation than peer countries in the region (GCI, 2016-2017). Based on Global Entrepreneurship Monitoring (GEM) 2015, 64 percent of firms were classified as potentially innovative,¹¹ compared to 59 percent across the Caribbean. The innovation rate of 21 percent¹² is also lower than that of other countries in the region. For example, Jamaica has an innovation rate of 35 percent and Trinidad and Tobago of 33.9 percent. Entrepreneurs identify difficulty complying with existing regulation as one of the key obstacles to innovation (Stevenson and Varela, 2015).

RECOMMENDATIONS

BUSINESS CLIMATE

- i. Promote innovation and the use of technologies within the trade sector. Reducing trade barriers and fostering access to new markets have the potential to improve competitiveness in Barbados. More investment in clearance systems, optimization of administrative and operational processes, and greater use of technologies at both the port and the airport can be key steps towards this goal.
- ii. Improve the digitization of public services. Digital transactions have been shown to be 74 percent faster on average and to cost between 1.5 and 5 percent of the cost of face-to-face transactions.¹² Therefore, promoting greater digitization of key public services, such as issuing licenses or registering property, has the potential to reduce costs, increase competitiveness and ease the burden of excessive red tape. The first step towards this goal is to implement a public sector digital strategy which can lay a roadmap for this process.
- iii. Invest in innovation hubs. There are various opportunities, such as the opening of Ross University or the rise of various fintech companies, to foster innovation hubs in Barbados. This can also create new opportunities for economic diversification and improvements in key sectors for the country, such as tourism and financial services. For this purpose, a clear development strategy for these sectors and a revision of the regulatory and incentives framework will be required.



Access to Finance

While financing is generally available, access to finance is reported to be a major obstacle for firms in Barbados, particularly for small and medium-sized enterprises (SMEs). Firms reported access to finance to be amongst the top three constraints to productivity in the 2014 PROTEqIN Survey. The survey also revealed that smaller firms in the sample find cost of finance

to be a much greater constraint than larger firms do. These challenges for accessing finance are reflected in the DBR, which in 2019 ranks Barbados 144th out of 190 countries on the getting credit sub-indicator, behind Jamaica (20th) and Trinidad and Tobago (102nd) and below the LAC average ranking of 94.

FIGURE 1.5A

CONSTRAINTS ON SMALL FIRM PRODUCTIVITY AND PERFORMANCE IN BARBADOS

PERCENTAGE OF SMALL FIRM RESPONDENTS

0 5 10 15 20 25 30 35 40 45 50

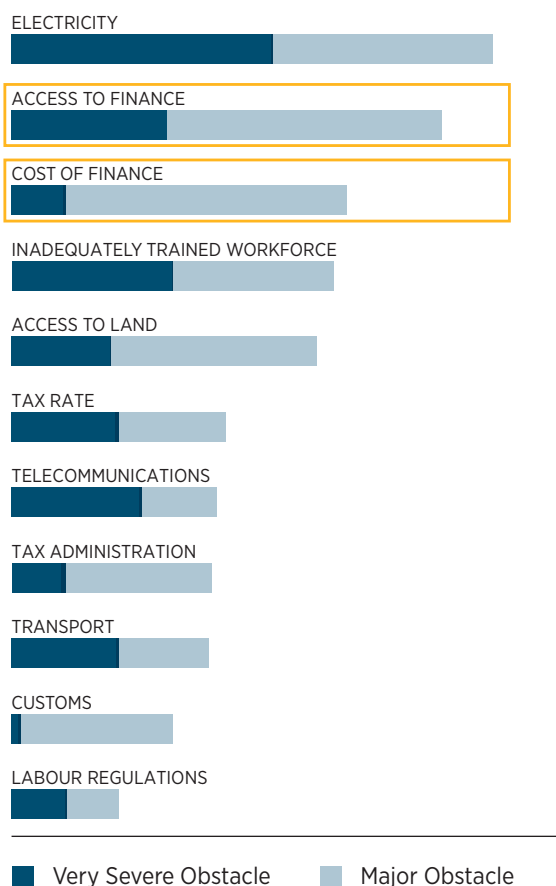
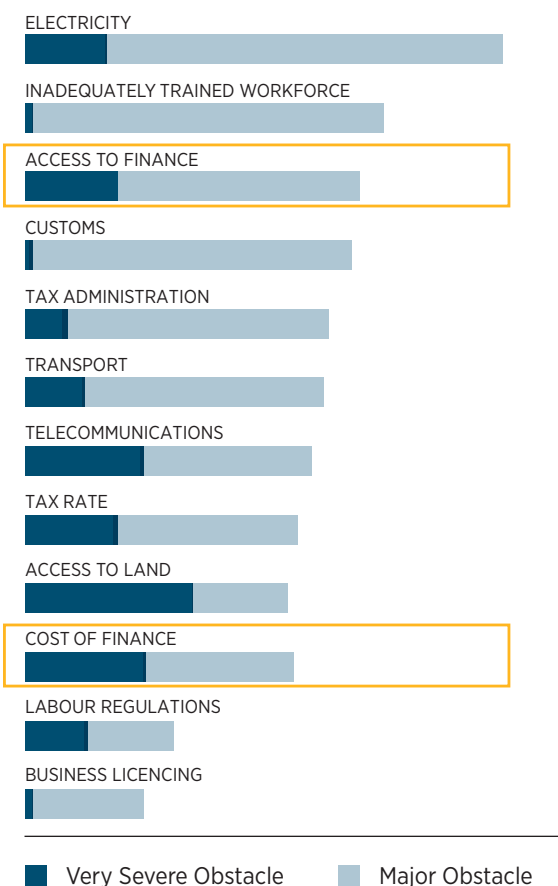


FIGURE 1.5B

CONSTRAINTS ON LARGE FIRM PRODUCTIVITY AND PERFORMANCE IN BARBADOS

PERCENTAGE OF LARGE FIRM RESPONDENTS

0 5 10 15 20 25 30 35 40 45



Source: Compete Caribbean (2014).

Note: Population results are based on number of firms sampled in each country.

High collateral requirements are one of the greatest constraints reported by firms seeking credit.¹³ According to the 2014 PROTEqIN Survey, the approximate required collateral in Barbados was 180 percent of the total loan value. This was above the Organisation of Eastern Caribbean States' average of 140 percent and was the highest amongst the surveyed firms in all C-6 countries (The Bahamas, Barbados, Guyana, Jamaica, Suriname, and Trinidad and Tobago). Smaller firms also reported having higher collateral requirements, averaging 194 percent of the loan value, compared to 174 percent reported by larger firms. The lack of a credit registry or bureau reinforces the need for higher collateral required by financial institutions facing information asymmetries and uncertainty.

Financial access is hampered by complex bureaucratic processes that increase the time and cost to access financial services. Banks in Barbados have increased their entry requirements due to real security concerns relating to corresponding banking relations and 'know your customer' standards. However, this has made the process of formal banking lengthier and more demanding for the consumer, limiting financial access. These revised requirements particularly affect smaller firms' ability to access financial services (Beecher, Bissessar, and Julien, 2018).

The financial sector's regulatory and institutional frameworks affect financial access for firms. The current regulatory framework could be updated to ensure all actors in the financial sector are covered by a supervisory agency, either the Central Bank of Barbados (CBB) or the Financial Services Commission. In terms of the institutional arrangements, although there are a broad range of institutions that enhance access to credit, the sector would benefit from greater coordination and complementarity across these institutions.

The persistence of gender disparities further hinders access to finance. Women-led businesses in the Caribbean are more likely to be credit rationed than comparable firms led by men. The 2014 PROTEqIN Survey shows that these gender gaps are also present in Barbados. More women-led (18.8 percent) than men-led (11.1 percent) businesses reported access to finance as the main obstacle to private sector operations.¹⁴

RECOMMENDATIONS

ACCESS TO FINANCE

- i. Expand the range of financing instruments, particularly for SMEs. Greater availability of financing instruments for SMEs could expand their access to credit and reduce costs. Instruments could be targeted to high-impact firms with robust business models and bankable projects, through financial intermediaries, and in line with banks' institutional strategies and relevant action plans.
- ii. Revise the regulatory and institutional framework. Greater coordination amongst actors that promote access to credit in Barbados, as well as reinforcing the supervisory capacity of the Financial Services Commission and the CBB, could make public support to the sector leaner and reinforce effective supervision.
- iii. Promote the use of technologies to reduce costs and increase market information. A secured transactions system could lower credit costs, increase transparency, and promote greater financial inclusion for SMEs (IFC, 2010). Supporting the development of a credit bureau could also reduce the costs of screening and registering collateral interests for banks, thereby reducing the overall cost of consumer lending and enhancing financial inclusion. This also represents an opportunity to promote a greater use of technologies, which can collect information on the creditworthiness of borrowers, as well as support compliance with international standards and regulations on transparency and accountability.
- iv. Generate more evidence on gender disparities in the sector. More evidence on existing gender disparities in the financial sector, as well as their underlying causes, could support better targeted and more evidence-based policy.



Climate Sustainability

Climate change can have devastating effects in Barbados. The main consequences from climate change are expected to be increases in the average annual temperature, changes in precipitation, sea level rise, coastal erosion, and higher tropical storm and hurricane intensity (Simpson et al., 2012). Overall, the effects of climate change pose several risks to infrastructure, particularly for the tourism industry, and can undermine economic growth.

Changes in precipitation can have externalities on water supply and soil erosion. Fluctuations in precipitation and air temperature can have externalities on agricultural production and on the disease profile. Decreases in overall precipitation may reduce the quantity and reliability of fresh water. In contrast, increases in precipitation might augment the rate of

soil erosion. This would increase sedimentation onto Barbados' coral reefs and seabeds, which could reduce their vigor and raise the sea level.

A sea level rise, as well as a higher intensity and frequency of tropical storms and hurricanes, can have catastrophic consequences for key infrastructure, particularly in the tourism sector. This is due to the country's small size, high population concentration, and large proportion of infrastructure located near the coast.¹⁵ The effect on the tourism industry could be devastating. For instance, over 90 percent of the estimated 6,000 hotel rooms in Barbados are built on the coast, less than half a mile from the high-water mark and less than 20 meters above mean sea level. The replacement cost for vulnerable coastal infrastructure could range between US\$330 million and US\$550 million (Jackson, 2002).

TABLE 1.4

IMPACTS OF CLIMATE CHANGE ON TOURISM

IMPACT	IMPLICATIONS FOR TOURISM
Warmer temperatures	Altered seasonality, heat stress for tourists, cooling cost, changes in: plant-wildlife-insect populations and distribution range, and infectious disease.
Increasing intensity and possibly frequency of extreme storms	Risk for tourism facilities, increased insurance costs/loss of insurability, and business interruption costs.
Reduced precipitation and increased evaporation in some regions	Water shortages, competition over water between tourism and other sectors, desertification, and increased wildfires threatening infrastructure and affecting demand.
Increased frequency of heavy precipitation in some regions	Flooding damage to historic architectural and cultural assets, damage to tourism infrastructure, and altered seasonality (beaches, biodiversity, river).
Sea-level rise	Coastal erosion, loss of beach area, higher costs to protect and maintain waterfronts and sea defenses.
Sea surface temperature rise	Increased coral bleaching and marine resource and aesthetic degradation in dive and snorkel destinations.
Changes in terrestrial and marine biodiversity	Loss of natural attractions and species from destinations, higher risk of diseases in tropical-subtropical countries.
More frequent and larger forest fires	Loss of natural attractions, increase of flooding risk, and damage to tourism infrastructure.
Soil changes (e.g. moisture levels, erosion and acidity)	Loss of archeological assets and other natural resources, with impacts on destination attractions.

Source: Adapted from WTO-UNEP (2008).

Changing sea surface temperatures, ocean acidification, or coral bleaching can negatively affect the tourism industry. As Barbados is mostly beach-based, these climate change-related externalities can hinder the industry's main assets and have negative effects on growth and development for the country.

The fiscal impact of more frequent natural hazards can increase financial pressure on the government. The occurrence of a catastrophic natural disaster could not only worsen fiscal accounts,¹⁶ but also hamper the government's capacity to finance an effective emergency response and economic recovery in a timely manner (Standard and Poor's, 2015). Without more proactive risk management, resilient budget planning, and insurance measures in place, the extraordinary costs of natural hazards could potentially pose large additional financial constraints on the state.

Greenhouse gas emissions are a concern given the country's high levels of traffic congestion and heavy dependence on fossil fuels to generate electricity. Fossil fuels, which generate most of the carbon emissions in the country, comprised 74 percent of fuel inputs for electricity in 2015. This supports high electricity tariffs, which are approximately 30 percent above the average for the LAC region.¹⁷ Furthermore, the growing vehicle fleet has resulted in more traffic congestion, which generates negative externalities in terms of quality of life for the population, road safety, and carbon emissions.¹⁸ The transport sector is one of the main sectors that contributes to emissions, generating around 14 percent of greenhouse gas emissions in Barbados.

RECOMMENDATIONS

CLIMATE SUSTAINABILITY

- i. Promote further climate change adaptation and mitigation measures. These could include investing in resilient construction, comprehensive risk assessments, and early warning systems.
- ii. Support the adoption of renewable energies to reduce Barbados' dependence on fossil fuels. Renewable energy could be further incorporated into the grid, complementing and eventually replacing the use of fossil fuels. This could also be supported by measures to improve energy efficiency, such as efficient lighting, air conditioners, premium motors, chillers, variable frequency drives, and power monitors. Barbados could also consider energy storage and smart grid technology and other baseload technologies to manage renewable energy intermittency. Investments in renewables should be coupled with regulatory and institutional reforms to effectively reach the government's goal of achieving carbon neutrality by 2030. For this purpose, a review of the current tariff system will be required to incorporate and price these new sources of energy.
- iii. Explore new financing mechanisms to confront natural disasters. An example of such a mechanism is the IDB's contingent credit facility instrument, which allows for a rapid transfer of funds to cover immediate financing needs that may arise following a natural disaster until other sources of funding are available.



Macroeconomic and Fiscal Landscape

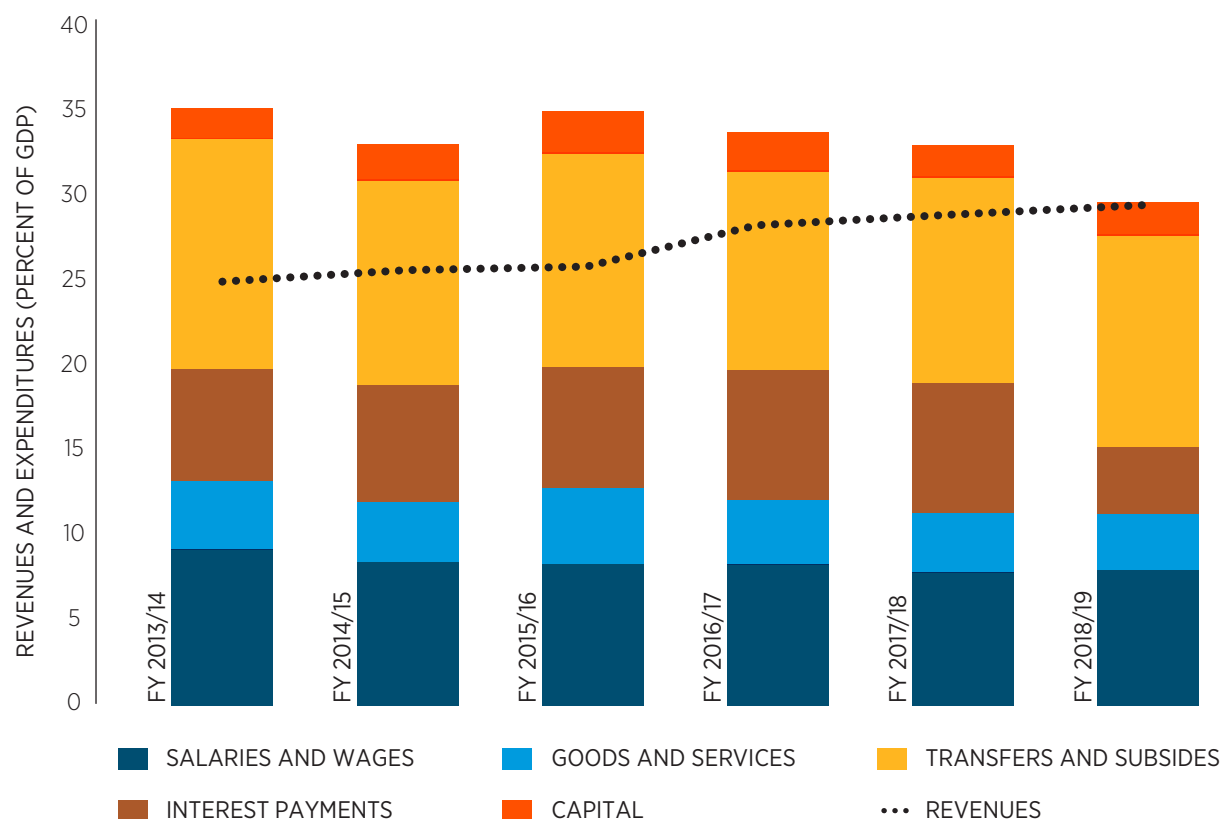
The current macroeconomic and fiscal landscape poses a challenge to development for Barbados. Low growth and recurring fiscal deficits fueled an unsustainable increase in the debt stock, which is now being curbed by the economic reform agenda. The combination of historically high expenditures fueled by high salaries, wages, and transfers, coupled with more modest revenue collection, led to fiscal imbalances and ultimately supported the debt trajectory.

Transfers to state-owned enterprises (SOEs) are a key driver of expenditures in Barbados. At approximately 8 percent of GDP in FY2018/19, or just over a quarter of government spending, transfers to SOEs are high. A number of these institutions are dependent on

government support, have guaranteed debt by the central government, and have built up arrears reaching US\$223.4 million in September 2018 (IMF, 2019a). Furthermore, SOE oversight has historically been weak, with limited availability of information and a narrow range of sanctions for noncompliance. The new 2019 Financial Management and Audit (FMA) Act and structural benchmarks under the IMF program directly aim to curb spending on transfers to SOEs and support greater accountability and transparency. However, the targeted spending cuts will likely affect service provision (transfers to SOEs are targeted at 6 percent of GDP by FY2021/2022), and the full implementation of the reforms will take time.

FIGURE 1.6

REVENUES AND EXPENDITURES



Source: IMF (2019).

Broad tax exemptions result in foregone revenues. Although the promotion of tax expenditures is generally justified to promote competitiveness and attract new businesses and industries, there is limited evidence they have been effective in Barbados. Instead, the widespread use of tax waivers and exemptions has resulted in a complex tax structure and in foregone revenues. The overall structure of tax expenditures also distorts economic incentives for business, ultimately affecting competitiveness for key industries in the country. It is difficult to measure the full extent of tax exemptions, as they are contained across a large number of separate and uncoordinated laws. However, removing tax expenditures could increase revenues, boost GDP growth, lower unemployment, improve income equality, and reduce the debt-to-GDP ratio.

RECOMMENDATIONS

MACROECONOMIC AND FISCAL LANDSCAPE

- i. Continue implementing SOE reforms. Although the reduction of transfers to SOEs is a key component of fiscal adjustment, its implementation will be arduous and will likely have externalities on service provision. Supporting adherence to the new reporting and accountability standards under the 2019 Financial Management and Audit (FMA) Act will be key, as well as gradual spending reduction through the proposed measures under BERT and the EFF.
- ii. Prioritize a tax expenditure reform. The prevalence of tax expenditures amidst a need for higher revenues, calls for their revision. A first step would be to re-examine all tax waiver and exemptions and consolidate them in a more unified legislation; followed by a clear strategy for reform. On a positive note, these actions can also promote greater transparency and increase the chance of enhancing efficiency.
- iii. Support the underlying structures for sound public financial management. Greater public sector efficiency and sound fiscal management will require reinforced underlying public financial management structures. Some specific examples that could directly contribute to this aim 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.

BARBADOS' STRENGTHS

Barbados has many strengths that can be used to catalyze a stronger growth path going forward.



Barbados' strengths, which underpin its success story include the following:

SOCIAL OUTCOMES

Barbados has relatively high standards of living, as measured by the HDI and the GII previously discussed. The country ranked 58th out of 189 countries in the 2017 HDI (UNDP, 2018). High social outcomes are the result of a comprehensive social protection system that guarantees universal access to education, healthcare, and social assistance to the Barbadian population.

EDUCATION AND HEALTH

The HDI and GII values further reflect Barbados' strong education and health outcomes, resulting from the country's universal access to social services. Barbados is a top health outcome performer in the LAC region. In 2017, under 5 mortality was 12 in Barbados compared to 18 per 1,000 births in LAC, and life expectancy at birth was 76, which is the same level as in the LAC region. Immunization rates (92 percent of children between the ages of 12 and 23 months) were close to OECD levels (94 percent). Similarly, education outcomes in Barbados are high by international standards. The country has 15.3 expected years of schooling and a 107 secondary education gross enrolment ratio.²⁰ This is higher than the average 13 expected years of schooling and the 90.7 gross enrolment ratio for secondary education in C-6 countries. At the same time, public spending on both health and education is high. Public

spending on health stood at 7.5 percent of GDP at the end of 2015 which is on par with the average for the LAC (7.4 percent of GDP) and is likely to continue increasing with further demographic changes and the growing incidence of noncommunicable diseases (NCDs). Public spending on education was comparable to many OECD states' levels of spending on education, reaching 5.1 percent of GDP between 2012 and 2017.

SECURITY

Overall there are relatively low crime and violence rates in Barbados compared to neighbouring countries. Although there has been a recent uptick in homicides, from 7.5 per 100,000 in 2012 to 9.9 per 100,000 in 2017, this still represents a low rate for the LAC region which had a rate of 22.3 homicides per 100,000 in 2015.

INFRASTRUCTURE

Overall, Barbados has an adequate stock of infrastructure and of good quality, despite its aging. The country ranks 30th out of 138 in the quality of infrastructure index in the GCI 2016-2017 above Jamaica (77th) and Trinidad and Tobago (54th), topping the Caribbean region. Barbados is well ranked particularly in its air transportation infrastructure (32th out of 138) followed by the quality of its ports (35th out of 138) and roads (49th out of 138) in CGI 2016-2017. The country relies on good infrastructure for trade facilitation and to sustain the tourism industry, particularly high-end tourism.

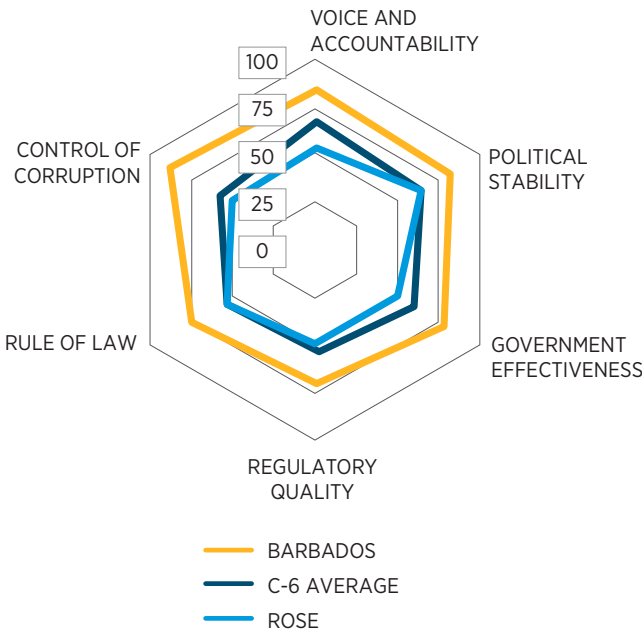


GOVERNANCE AND INSTITUTIONAL QUALITY

On average, Barbados scores significantly higher than the average for C-6 countries and the rest of small economy (ROSE) countries²¹ (see figure 1.7a) in all World Governance Index (WGI) indicators. Moreover, its scores are comparable to that of the Organization for Economic Co-operation and Development's (OECD) high income countries. However, Barbados' WGI indicator scores have been worsening in recent years, possibly pointing towards a reduction in citizens' trust in public institutions during the post 2008 crisis period. For instance, Barbados' government effectiveness score declined from the 91st percentile ranking prior the crisis in 2008 to the 77th percentile ranking in 2017.

FIGURE 1.7A

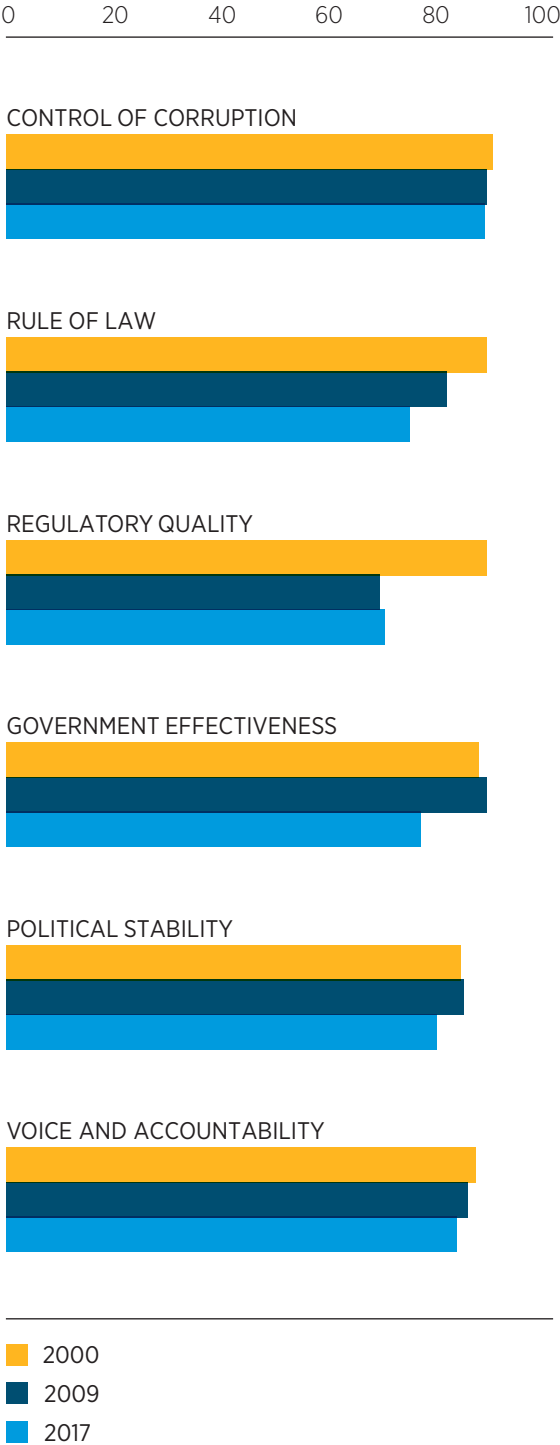
WORLD GOVERNANCE INDEX, 2017



Source: WGI

FIGURE 1.7B

CHANGE IN WGI INDICATORS FOR BARBADOS



Source: WGI

CONCLUSION



This document has presented Barbados' economic overview, as well as strengths and challenges to the country's economic development. In so doing, we aim to shed light on some of the most pressing issues that impede growth and recommend measures that can support the country's development.

Recent economic challenges have resulted in an ambitious reform program under BERT and the EFF. Proposed measures are aimed at redirecting the economy on a more sustainable trajectory. However, they could have short-term negative impacts on living standards.

Barbados now faces the task of complementing fiscal consolidation with growth-enhancing measures and structural reforms. As highlighted in this report, advancing reforms in the four identified areas that challenge development—the business climate, access to finance, climate sustainability, and the macroeconomic and fiscal landscape—will be important to jumpstart the economy to return it to a long-term

sustainable growth path. However, implementation of these reforms should be gradual and balanced, given the complex and intertwined nature of these development challenges.

Building on and protecting the country's strengths will be important for development. Barbados has some of the best social outcomes and governance indicators as well as the lowest crime rates in the region. This, coupled with an adequate infrastructure stock, are assets on which the country's development strategy should hinge and which ought to be protected.

The successful implementation of the proposed reforms offers a unique opportunity for the country to advance in its reform agenda. Barbados' socioeconomic context called for a deep reform. This has ushered in a time of change in the country and provides the opportunity to continue improving economic stability and quality of life in Barbados, as well as setting an example for other countries in the region.



ENDNOTES

1. The benchmark indicators used for HDI and GII were selected based on the information available in the Human Development Report (HDR).
2. The country's HDI value is also above the average of 0.76 recorded for countries in the LAC region. The GII value is also below the average for LAC countries (at 0.39).
3. The domestic debt restructuring, completed in the last quarter of 2018, reduced the debt-to-GDP ratio by 30 percent of GDP. This resulted in a lower debt stock for 2018 compared to previous years.
4. The GINI index is a welfare indicator that measures inequality. The GINI coefficient ranges from 0 (complete equality) to 1 (complete inequality).
5. Schmid, Giles Alvarez, and Waithe (2018), using Borenzstein et al.'s 2014 methodology, identified these as the key challenges for development in Barbados.
6. According to the United Nations Conference on Trade and Development (UNCTAD, 2003), high non-tariff barriers have proved to be the greatest hindrance to increased market access in Barbados.
7. The 2014 PROTEqIN Survey was first undertaken as part of the World Bank's 2010 Latin American and Caribbean Enterprise Surveys.
8. 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 Global Competitiveness Report 2016-2017. (WEF, 2016).
9. This indicator measures the extent to which non-tariff barriers (e.g., health and product standards, technical and labelling requirements, etc.) limit the ability of imported goods to compete in the domestic market.
10. Alonso et al. (2018).
11. Potential innovators are 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 are from the 2014 PROTEqIN Survey (Compete Caribbean, 2014).
12. The innovation rate is calculated as the percentage of those involved in total early-stage entrepreneurial activity who indicate that their product or service is new to at least some customers and that few/no businesses offer the same product. (GEM, 2015).
13. For example, Estonia reports annual savings equivalent to 2 percent of GDP. E-Governance Academy of Estonia, e-Estonia www.etervis.ee. For further evidence, see Kernaghan (2012).
14. 62 percent of the firms surveyed in the 2014 PROTEqIN Survey had a line of credit or a loan, which is higher than the 43 percent CBB country average. Of these, 57.3 percent reported that the financial institution required collateral—mainly land and buildings, machinery equipment, and personal assets of owners (Compete Caribbean, 2014).
15. This is consistent with Piras, Presbitero, and Rabellotti's (2013) findings that firms with a predominant presence of women owners in the Caribbean face more credit constraints than men-led businesses.
16. Most road infrastructure is within the low elevation coastal zones of Barbados, meaning that around 288 km of the Barbados road network is vulnerable to climate change impacts (ECLAC, 2011).
17. Evidence shows that during natural disasters, government spending tends to increase, budget balances usually worsen, and public debt typically rises. See, for example, Keen, Freeman and Mani (2003) and Cavallo and Noy (2009).
18. IDB calculations based on the Bloomberg New Energy Finance (BNEF) database (2017).
19. Between 1997 and 2006, the growth rate in vehicles was close to an average of 10 percent per year (MTIP, 2014). As of 2015, there were 110,000 registered vehicles with a motorization rate in Barbados of 387 per 1,000 inhabitants, the highest in LAC region (World Bank, 2017).
20. These scores have been improving. In 2000, Barbados had 14 expected years of schooling and a secondary gross enrolment ratio of 103. World Bank Development Indicators and <http://hdr.undp.org/en/content/expected-years-schooling-children-years>
21. The ROSE countries include: Bahrain, Belize, Bhutan, Botswana, Brunei Darussalam, Cape Verde, Comoros, Cyprus, Djibouti, Equatorial Guinea, Estonia, Fiji, Gabon, The Gambia, Guinea-Bissau, Iceland, Kiribati, Latvia, Lesotho, Luxembourg, FYR Macedonia, Maldives, Malta, Mauritius, Mongolia, Montenegro, Namibia, Qatar, Samoa, São Tomé and Príncipe, Seychelles, Slovenia, Solomon Islands, Swaziland, Democratic Republic of Timor-Leste, Tonga, Tuvalu and Vanuatu. Although this is the extensive list of countries, the set of comparators change depending on data availability.

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