



**RE-369**

***Country Program Evaluation:  
Barbados 2005-2009***

---

*Office of Evaluation and Oversight, OVE*

Inter-American Development Bank  
Washington, D.C.  
June 2010

For Official Use Only

## TABLE OF CONTENTS

### [ACRONYMS](#)

### [Executive Summary](#)

I.	COUNTRY CONTEXT AND RECENT ECONOMIC DEVELOPMENTS .....	1
A.	A Snapshot of the Economic, Social, and Political Situation.....	1
B.	Development Challenges .....	4
1.	Recent Economic Developments .....	4
2.	Vulnerability to External Shocks .....	5
3.	Growth and Competitiveness .....	6
C.	Macroeconomic Policy During Previous and Current Recessions .....	8
II.	THE BANK'S PROGRAM IN BARBADOS .....	10
A.	Findings from the 1989-2004 Country Program Evaluation .....	10
B.	The 2005-2008 Country Strategy .....	10
C.	Strategic Focus.....	11
1.	Strengthen the Environment for Private Sector-led Growth .....	11
2.	Maintenance and improvement in infrastructure and human capital development .....	11
3.	Support public sector institutional strengthening .....	12
D.	Relevance to Government Priorities .....	14
E.	Anticipated v. Approved Program.....	14
F.	Learning from Previous Programming Cycles .....	16
G.	Evaluability.....	17
H.	Instruments .....	18
I.	Donor Coordination.....	19
III.	THE BANK'S PROGRAM IN EXECUTION.....	19
A.	Portfolio Description .....	19
B.	Portfolio Performance.....	20
C.	Bank Supervision.....	22
IV.	RESULTS .....	23
A.	Strengthening the environment for private sector-led growth.....	23
B.	Maintenance and ; Improvement in Infrastructure and Human Capital Development .....	24
C.	Support for Public Sector Institutional Strengthening.....	28
V.	CONCLUDING OBSERVATIONS.....	28
A.	Findings .....	29
B.	Recommendations.....	31

### [BIBLIOGRAPHY](#)

## ANNEXES

<http://idbdocs/wsdocs/authenticate/authenticate.aspx?DOCNUM=35298461>

**ANNEX 1:** COUNTRY STATISTICS

**ANNEX 2:** COUNTRY PROGRAM

**ANNEX 3:** PORTFOLIO EXECUTION

## ACRONYMS

Bank	Inter-American Development Bank
BDB	Barbados Development Bank
BLP	Barbados Labour Party
BNB	Barbados National Bank
BOP	Balance of Payments
BPA	Barbados Port Authority
BSSEE	Barbados Secondary School Entrance Examination
BWA	Barbados Water Authority
CARICOM	Caribbean Community and Common Market
CBA	IDB Country Office in Barbados
CDB	Caribbean Development Bank
CPE	Country Program Evaluation
CPP	Country Programming Paper
CS	Country Strategy
CT/INTRA	Intraregional technical cooperation
CXC	Caribbean Examinations Council
CZM	Coastal Zone Management
DLP	Democratic Labour Party
DO	Achievement of Development Objectives
(e)	Estimated data
ECLAC	Economic Commission for Latin America and the Caribbean
EIB	European Investment Bank
EPA	Economic Partnership Agreement
ERR	Economic Rate of Return
FDI	Foreign Direct Investment
FIA	Financial Institutions Act (1996)
FSAP	Financial System Stability Assessment (IMF)
FTAA	Free Trade Agreement of the Americas
FTC	Fair Trading Commission
GDP	Gross Domestic Product

GoBA	Government of Barbados
HDI	Human Development Index (UNDP)
IDB	Inter-American Development Bank
IIC	Inter-American Investment Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
IP	Implementation Progress
LAC	Latin American and the Caribbean
MDG	Millennium Development Goals
MIF	Multilateral Investment Fund
NIS	National Insurance Scheme
NSP	National Strategic Plan of Barbados
OECS	Organization of Eastern Caribbean States
OVE	Office of Evaluation and Oversight
(p)	Provisional data
PAHO	Pan American Health Organization
PAIS	Project Alert Information System
PCR	Project Completion Report
PPMR	Project Performance Monitoring Report
PPP	Purchasing Power Parity
PRI	Private Sector Department
PRODEV	Program to Implement the External Pillar of the Medium Term Action Plan for Development Effectiveness
SME	Small and Medium Enterprises
TC	Technical Cooperation
UK	United Kingdom
UNDP	United Nations Development Programme
US	United States
VAT	Value-Added Tax
WB	World Bank
WDI	World Development Indicators

## EXECUTIVE SUMMARY

This report presents an evaluation of the Bank's Country Program in Barbados over the period 2005-2009. The period of review spans the years between the end-date of the preceding Country Program Evaluation (CPE, 1990-2004), the execution of the 2005-2008 Country Strategy (CS), and the start of the Bank's next programming cycle (2010). It is based on a review of documentary evidence provided by the Bank and other sources, as well as information gleaned from interviews with Government officials, representatives of civil society, and Bank staff in Headquarters and in the Country Office.

The evaluation is organized in the following chapters: Chapter I provides an overview of the structure of the Barbadian economy, developments that took place over the period of review, and the development challenges faced by the country. Chapter II describes and evaluates the Bank's programming intent for the country based on two evaluative criteria: relevance and coherence. Chapter III reviews the delivery of the Bank's program; and Chapter IV examines the developmental effectiveness of the program in areas identified by the strategy. In conclusion, Chapter V presents the general findings of the evaluation, and recommendations for future Bank programming and action in the country.

### **Barbados and the Bank's Country Program**

Barbados is a small island of about 430 square kilometers and 275,300 inhabitants.<sup>1</sup> Since gaining independence in 1966, the country has maintained a stable and healthy democracy.<sup>2</sup> Indeed, different sources point to the existence of a tradition of effective governance, low corruption, and well-functioning public institutions<sup>3</sup> that compare favorably with other Caribbean islands in terms of economic, social, and political indicators.

The 2005-2008 Country Strategy (CS) identified the need for Barbados "*to raise its level of competitiveness relative to that of its main trading partners*" as the principal development challenge facing the country. This assessment emerged from a body of analytical work that was undertaken by the Bank in areas relating to productivity, the labor market, trade, tourism, and agriculture.<sup>4</sup> The diagnosis was further justified by a description of recent developments in terms of macroeconomic indicators, notably the current account and goods and services balances, export performance, investment rate, and proxies of cost-competitiveness. Vulnerabilities stemming from a relatively high exposure to "*economic shocks and natural disasters, ...an undiversified production structure, and high infrastructure costs relative to the population and tax base,*" were also identified as challenges to economic stability, as was "*the need to adjust to an increasingly liberalized trade environment, and tighter conditions with respect to the availability of capital resources.*"<sup>5</sup> (CS ¶2.9)

Consistent with its diagnosis, the Bank's Strategy identified strengthening the country's "*competitiveness as a basis for sustained growth and improved well-being of the population*" as its goal, and raising "*the capacity of Barbados and its businesses to compete in a changing international economic environment*" as its purpose (CS, ¶5.1). To attain this outcome, the CS assigned priority to three strategic areas related to

competitiveness: (i) strengthening the environment for private sector growth; (ii) maintenance and improvement in infrastructure and human capital development; and (iii) public-sector institutional strengthening. The Bank dropped, however, the objective of environmental management that was central to the previous CS and essential to the country's sustained competitiveness in its major economic sector--tourism.

## **Findings**

Over the period of review, the Bank's program in Barbados was characterized by a low level of evaluability,<sup>6</sup> protracted execution, and few results. Although the CS was perceived to be relevant to the objectives of the country's National Strategic Plan (2005-2006) at the time that it was conceived, the Country Program lost momentum due to significant delays in project execution. This led to a relationship that was costly for both partners in terms of time, resources, and ultimately, a low-performing portfolio.

The future success of the Bank's partnership with Barbados will depend on the establishment of realistic and focused targets for its own performance, and the addition of greater technical value to its financial contribution.<sup>7</sup> This means that analytical work must be more deeply integrated into the formulation and discussion of the Bank's policy response, and technical assistance more tightly woven into the design, execution, and supervision of the operational portfolio. The transfer of knowledge and technical assistance, in turn, will be essential to securing support from institutions and stakeholders throughout implementation. In addition, more groundwork needs to be done to facilitate a successful transition to results-based management within Government, and to strengthen national systems for use in Bank-financed projects. Attention to external competitiveness is likely to remain an important issue over the medium term since this constitutes the principal means of ensuring steady economic growth.

**Relevance.** As conceived, the Bank's strategy was generally integrated with the nation's priorities and objectives. Authorities interviewed by OVE for the CPE considered Bank projects to be important and relevant. Most projects were derived from Government initiative, followed by consultations with the Bank. As a result, the Bank had a supportive role in shaping the strategies, program, and policies in the country.

To inform the strategy, the Bank initiated analytical work related to competitiveness, productivity, the labor market, trade, tourism, and agriculture. Despite this body of research, the CS did not present evidence to support the alternatives it chose, and overlooked one of the most pressing challenges to sustainable development in Barbados, the efficient management of the country's limited water supply, including the treatment of wastewater, in its discussion of key development challenges.

Barbados' development model seeks to capitalize on the strength of its skilled workforce and the quality of its infrastructure. Over the period of review, infrastructure and human capital development dominated the loan portfolio in terms of volume (79% of the total allocation 2005-2009) and results.

Strengthening private sector development was an expressed objective of the CS. In this context, five of six approved MIF operations focused on the needs of Small and Medium-

Sized Enterprises. Although not effective until 2010, the Competitiveness loan (BO-L1007) was designed to address key bottlenecks which affect the efficiency of the movement of goods in Barbados, and to support business climate reforms and other trade and investment promotion activities. The Bank approved a Private Sector Development Strategy for Barbados in 2006; however, neither PRI nor IIC were active in the country.

The Bank only partially utilized its programming to “lay the groundwork for moving toward greater reliance on the government's systems...” (CP ¶3.13). Outside of identifying constraints relating to procurement and statistics, it did not review the country’s fiduciary, financial management, planning, monitoring, or evaluation capacity, nor did it suggest a plan to migrate towards the adoption of country systems in Bank projects.<sup>8</sup> Although the strategy stated that the Bank would use PRODEV resources to “*stimulate public sector results-based management and efficiency*”, it did not identify the context of this support.

**Coherence.** The planned mix of instruments was coherent with lessons learned from past strategy execution, and with the needs of Barbados. Given the tight fiscal space of the country and the imperative to reduce the transaction costs of doing business, the CS shifted the Bank’s focus from traditional investment loans<sup>9</sup> towards more flexible lending instruments, including sector facilities,<sup>10</sup> reimbursable technical cooperations (TCs),<sup>11</sup> and innovation loans.<sup>12</sup>

**Evaluability.** The soundness of the diagnostic in the document was hindered by the lack of a clear and consistent definition of the competitiveness challenge and the failure to identify its root causes. Neither the goal nor the specific objective of the strategy was measurable. Although reasonable performance indicators, baselines, and targets were provided at the macro-fiscal level, the CS failed to identify the contribution of the Bank’s proposed interventions to achieve the set targets. By not doing so, it also failed to assume responsibility for its own developmental impact.

**Execution.** Historically, Barbados has had one of the lowest performing portfolios among borrowing countries in terms of disbursements and portfolio age. This low rate of execution is reflected in the negative flow of net cash resources from 2002 – 2008. Two of the oldest and largest loans in the portfolio were driven by complex, sector-wide reforms. These programs had broad, competing objectives and generally required significant inter-agency collaboration, institutional reform, and some legislative change. The procurements envisioned under these loans were also large and complex. This often led to splitting the loans into smaller sub-projects for procurement purposes (institutional, legislative, works, training, etc.). As a result, instead of executing one loan, the executing unit for each program was faced with implementing numerous small projects without a corresponding increase in staff. Although some execution bottlenecks remain, disbursements improved markedly in 2008, following the reformulation of the Education and Administration of Justice loans. The incorporation of flexible instruments into the portfolio, the staffing-up of the Barbados Country Office (CBA), the simplification of Bank procedures following the realignment, and the certification of CBA specialists in low-risk procurement, also facilitated movement towards a more targeted and higher-performing portfolio, as well as a turn-around in the flow of net cast resources to the country by the close of 2009.



With the exception of Water and Housing, loans approved since 2005 are generally smaller, and focus on resolving a specific problem. Sector facilities were incorporated to fast track project preparation. This cohort of operations is fairly-well aligned with the programmatic intent of the CS, and for the most part, achieved eligibility within three months of approval. It is unknown whether the new cohort of loans will execute more efficiently.

**Results.** The Government regards the IDB as a good partner and maintains a good relationship with the Bank. Nonetheless, the program has produced few results over the period of review. Strategic Focus 2: *Maintenance and Improvement in Infrastructure and Human Capital Development*, is the only pillar to achieve development effectiveness targets at the project level. These include improved education outcomes at the primary and secondary levels, shoreline stabilization, and erosion control.

### **Recommendations**

***First***, the Bank should review with Government the recommendations of the previous CPE, many of which remain relevant to the country's development objectives. Noteworthy are ongoing concerns about improving data collection and monitoring at the project, program, and national levels. Beyond strengthening measures currently underway to modernize the Barbados Statistical Service (BA-L1009), the Bank, together with the country, should continue to address the information gap as part of a comprehensive diagnostic of national systems. The goal of this exercise would be to identify resources to expedite additional strengthening measures. Barbados is a good candidate to use national systems due to its investment grade credit rating, low level of corruption, and strong institutions. Given the tight fiscal space of the country, a greater use of national systems for program monitoring and decision making could reduce the transactional costs of doing business for both partners, and potentially enhance the efficiency of execution.

***Second***, the objectives of CS 2005 were too broadly defined, the evaluability of the program low, and execution poor. Given the projected growth of the national debt and widening of the fiscal deficit, both the country and the Bank must be held accountable for a better spending of country resources. The new CS should therefore be focused, prioritized, and targeted to leverage a high return. It should provide evidence as to why the proposed interventions merit the Bank's attention more than others not included, and establish a metric and framework to jointly monitor results.

***Third***, the next strategy is for a country with a relatively high public sector debt and twin deficits (see ¶1.9-1.15). Thus, the financial exposure analysis should have prominence. Given the country's weakened macroeconomic stance, it is possible that Barbados may seek support from the Bank to finance anti-cyclical measures. The new strategy and programming exercise should therefore take into account the context of the financial crises and Government's response when establishing short-term goals and actions.

***Fourth***, there is something paradoxical about the poor performance of the portfolio given the continuity of the Bank in certain sectors, and the country's institutional capacity. *"The Bank needs to address the low implementation and execution performance of its*

*projects. Armed with a full diagnosis of why previous actions have failed, the Bank should design new measures and explore with the authorities of Barbados a new program that exploits the Bank's new lending framework's instruments and processes."* This observation, which was also voiced in the previous CPE, merits serious evaluation in order to identify the root causes of the phenomena and establish measures to enhance portfolio performance in keeping with Barbados' standards and capacity. Moreover, significant delays associated with the execution of large, complex loans in the past, provide additional motivation to jointly analyze the pros and cons of moving towards more flexible financial instruments, such as the sector-wide approach (SWAP), in the future.

***Fifth***, the Bank should deepen its support for Government initiatives that improve management and oversight capacity in the public sector. This work should focus on strengthening required inputs in terms of analytic tools, technical skills, staff competencies, and an organized structure that feeds directly into policy making. The statistics loan has a component to develop a more user friendly data base; however, there is scope to do more in this area. The goal should be to work with GoBA to support evidence-based decision-making.

***Sixth***, policy attention to external competitiveness is likely to remain an important issue over the medium term since this constitutes the principal means of ensuring steady economic growth. Hence, the maintenance and upgrading of core economic infrastructure will continue to be an important task for Barbados. There is scope for the Bank to reach beyond its traditional boundaries to address complex issues under consideration by the country in the water sector, including the regulatory framework, user fees, and cost-recovery.

***Seventh***, historically, the Bank's assistance to Barbados has focused on competitiveness, the social sectors, infrastructure, and environmental management. Although this last sector was dropped from CS 2005, disaster risk mitigation, natural resource management, and climate change are of strategic importance to the country in terms of maintaining competitiveness in its primary economic sector -- tourism. Thus, a focus on environmental management should be reflected in the Bank's Program.

***Eighth***, in the past, the Bank's program was characterized by an absence of private sector operations relative to business opportunities. This was in part due to restrictions on PRI and IIC that no longer exist. Given GoBA's focus on stimulating the economy through an accelerated public sector investment program, it would be prudent for the private sector windows of the Bank to assess ways in which existing instruments could be adapted to the realities of this small, but dynamic economy, lest they become irrelevant.

## I. COUNTRY CONTEXT AND RECENT ECONOMIC DEVELOPMENTS

### A. A Snapshot of the Economic, Social, and Political Situation

1.1 Barbados is a small island of about 430 square Km and 275,300 inhabitants.<sup>13</sup> Since gaining independence in 1966, the country has maintained a stable and healthy democracy.<sup>14</sup> Indeed, different sources point to the existence of a tradition of effective governance, low corruption, and well-functioning public institutions<sup>15</sup> that compare favorably with other Caribbean islands in terms of economic, social, political, and competitiveness indicators (Table 1.1).

**Table 1.1: Key Indicators of Selected Caribbean Countries**

Development Indicator	1998	Barbados and the Caribbean (2009)			
	Barbados	Barbados	The Bahamas	Jamaica	Trinidad & Tobago
<b>Economic Indicators (*)</b>					
GDP (WDI, US\$ B)	2.4	<b>3.6</b>	7.5	14.4	24.8
GDP PPP Per Capita (IMF 2009, US\$)	7,350	<b>10,350</b>	20,253	6,079	23,507
S&P Sovereign Rating (Forex mlong-term debt)	A-	<b>BBB</b>	A-	B-	A
<b>Social Indicators (*)</b>					
Human Development Value (HDI, Scale 0.0 - 1.0)	.858	<b>.903</b>	.856	.766	.837
Public Education Expenditure (HDI, 1995-97/2002-05, % GDP)	7.2	<b>6.9</b>	3.6	5.3	4.2
Public Health Expenditure (HDI 1996-98/2006, % GDP)	4.6	<b>4.2</b>	3.6	2.5	2.5
Life Expectancy at Birth (HDI, Years)	76.5	<b>77.0</b>	73.2	71.7	69.2
Literacy (HDI, % Population)	97.0	<b>99.7</b>	95.8	86.0	98.7
Combined Primary-Tertiary Gross Enrollment (HDI, % Population)	80.0	<b>92.9</b>	71.8	78.1	61.1
<b>Political Indicators (*)</b>					
Control of Corruption (WB, Percentile)	89.3	<b>86.5</b>	90.8	35.7	52.7
Political Stability (WB, Percentile)	79.8	<b>86.6</b>	73.2	34.9	47.8
Rule of Law (WB, Percentile)	85.2	<b>88.5</b>	87.1	39.2	48.8
Voice and Accountability (WB, Percentile)	93.8	<b>87.5</b>	87	66.3	61.5
Government Effectiveness (WB, Percentile)	89.6	<b>89.6</b>	83.4	57.8	64.5
Regulatory Quality (WB, Percentile)	90.7	<b>74.4</b>	79.7	63.8	70.5
<b>Competitiveness Indicators(*)</b>					
Global Competitiveness Index (WEF, Rank)	n.a.	<b>44</b>	n.a.	91	86
Travel and Tourism Competitiveness Index (WEF, Rank)	n.a.	<b>30</b>	n.a.	60	84
Technological Readiness Index (WEF, Rank)	n.a.	<b>41</b>	n.a.	50	67
Infrastructure Index (WEF, Rank)	n.a.	<b>21</b>	n.a.	67	54
Regulatory Quality (WDI, Percentile)	n.a.	<b>80.6</b>	82.0	61.7	71.4

Sources: For Barbados: Central Bank. For all other countries: IMF World Economic Outlook 2009, World Bank Governance Indicators 2009, World Bank World Development Indicators 2009, World Economic Forum Indices 2008, 2009, UNDP Human Development Indicators 2009, CIA World Fact Book 2009.

(\*) A low rank or high percentile indicates relative strength.

1.2 **Political stability and social consensus.** Barbados' development model seeks to capitalize on the comparative advantages of its institutional and political stability, economic resilience, and educated workforce. The model is based upon a Tripartite Social Partnership that builds on high-level consultation between

Government, the private sector, and the labor unions to generate consensus around difficult policy choices. Both the Democratic Labour Party, which was voted into office in 2008, and the Barbados Labour Party, which held office from 1994-2008, enjoy good relations with the private sector and trade unions, and favor an active role for the state in the expansion of economic infrastructure and social development. This has led to a fairly high degree of political stability and policy continuity in difficult times. The Social Partnership has also contributed to economic stabilization through wage concessions and improved industrial relations during sharp economic downturns, including the current recession. Top issues for voters in the 2008 election included the high cost of living, the affordability of housing, health care, and transport infrastructure.

- 1.3 ***Socioeconomic performance.*** Barbados has one of the highest per capita incomes in the Latin American and the Caribbean (LAC) region and enjoys an investment grade rating of its sovereign bonds. Most households own their homes, and over 90% have piped water and electricity. The nation's development strategy is predicated on the belief that the education and health of its workforce is vital to the country's competitiveness and productivity. Consistent with this philosophy, the Human Development Index (HDI) value calculated for Barbados by the United Nations Development Program (UNDP) increased from .858 in 1998 to .903 in 2009, making it the only country in the region to achieve "very high human development" status.<sup>16</sup> Notable is the fact that the country ranked 37 of 179 countries in terms of overall socio-economic performance (up from 39 in 2006); but, 48 in terms of per capita GDP. This difference reflects the strength of the nation's institutional framework to address social policy.
- 1.4 ***Human resource development.*** Historically, Barbados has expressed its commitment to human resource development through a relatively large budgetary allocation to public education.<sup>17</sup> This has enabled it to attain a 100% literacy rate, and a combined gross enrollment ratio for the primary and secondary levels of 93%, up from 80% in 1998 (HDI 2008). Although tertiary education and technical training is available at five post-secondary institutions, the small size of the population means that it is simply not possible to provide the array of programs required to drive the economy at all levels. This dynamic has conspired to create an environment in which a highly-educated workforce coexists with a shortage of skilled labor.<sup>18</sup>
- 1.5 The *Report by the Government of Barbados before the United Nations Special Summit on Progress Towards the Attainment of the Millennium Development Goals (2007)*, confirmed that the country has achieved or surpassed most of its Millennium Development Goals (Annex 1.1). Additional effort is required, however, to address the changing epidemiological profile of the population. For example, the transition of the country from an agrarian to a "knowledge-based" economy has provoked demographic trends similar to those observed in industrial countries -- an aging population and sedentary lifestyles. As a result, chronic diseases such as diabetes and obesity have replaced infectious diseases as the

leading cause of mortality and morbidity,<sup>19</sup> all of which pose a threat to labor productivity.

- 1.6 ***Social protection.*** The extensive social protection network includes a social security and national health scheme, public and private pension schemes, and an unemployment insurance scheme. Gains in longevity signal a higher financial burden on social welfare and pension schemes over the long term. They also imply higher future costs of health care and a general need to improve the targeting and efficiency of service delivery for an aging population. Notwithstanding social advances, poverty remains an important challenge. A 1997 Poverty and Income Distribution Study funded by the Bank estimated that 13% of the population lived in poverty. Although insufficient information has been collected over the years to update this number, the Poverty Alleviation Bureau “*saw an 11% increase in requests for assistance*” in 2007 (Barbados Economic and Social Report, 2008). A new household survey is planned for 2010.
- 1.7 ***Sectors of the economy.*** The economy is primarily comprised of mostly high-end tourism, construction, light manufacturing, and offshore financial services. Since independence in 1966, these sectors have progressively gained more weight in overall economic activity, while agricultural products, especially sugar, once the primary source of income on the island, declined due to the loss of preferential treatment on the European market. According to the Ministry of Tourism, tourism represented around 13.9% of GDP in 2008; but, if indirect effects on other activities are taken into account (e.g. transportation, retail, and second homes), the overall contribution of the sector would grow to about 40%. Construction, manufacturing, and offshore financial services were estimated to comprise roughly 12%, 9%, and 5%, of GDP in 2008, respectively. Agriculture, once the mainstay of the economy, fell from 5.1% of GDP in 2005 to 4.3% in 2008.
- 1.8 ***Competitiveness.*** The World Economic Forum defines competitiveness as the strength of a country’s investment climate and ability to sustain growth. Of the 133 economies reviewed in the 2008-09 World Competitiveness Report (WCR), Barbados ranked 44, down from 41 in 2006, the first year that it was included. The analysis of the country’s performance across 110 indicators of competitiveness provides further evidence that its success has been driven by its highly-educated workforce, the stability of its public institutions, and its economic infrastructure. Constraints to competitiveness include the small size of the country’s domestic and foreign markets, and a weakened macroeconomic stance.<sup>20</sup> In terms of the domestic business environment, executive surveys administered between 2006-2008 by the Arthur Lewis Institute for Social and Economic Studies, University of West Indies, identified the “*poor work ethic in the national labor force*”, and “*inefficient Government bureaucracy*” as the most problematic factors for conducting business in the country (WEF 2009).

## **B. Development Challenges**

### **1. Recent Economic Developments**

- 1.9 As one of the most stable and prosperous countries in the region, Barbados has experienced steady growth and relatively low inflation through much of the period of review. Nonetheless, as a small, open economy that is highly dependent on tourism inflows, the country began to experience significant macroeconomic challenges in the advent of the current recession.
- 1.10 ***Economic activity and prices.*** Between 2005-2007, GDP grew at an average annual rate of 3.8% in real terms, albeit at a declining trend (Annex 1.2). Growth was primarily driven by the good performance of travel credits, with further help from a buoyant construction sector fueled by the 2007 Cricket World Cup. The macroeconomic outlook began to change in 2008, when economic activity slowed in the face of the current recession. External demand weakened (especially for tourism), foreign direct investment (FDI) declined, import prices rose, and the construction sector experienced a correction. Industrial production entered negative terrain in 2007, followed by a contraction in GDP growth beginning in 2008.<sup>21</sup> Inflation averaged 5.8% between 2005 and 2009. Although a hike in fuel and food prices brought upward pressure during the first half of 2008, these developments have since moderated in the subsequent correction of oil prices, and the slowdown in economic activity.
- 1.11 ***The external sector and balance of payments.*** The United States is Barbados' main trading partner, followed by Trinidad & Tobago, and the European Union. The positive contribution of the external sector to growth has been rooted in a fairly strong export performance, with total exports of goods and services growing by about 4.9% on average between 2005-2009, 2.4 percentage points more than average imports growth (Annex 1.3).<sup>22,23</sup> As a result, the current account deficit (CAD) moderated from -10.1% of GDP in 2005 to -4.4% in 2007. By 2009, however, the CAD slipped a further 0.9% to -5.3 (preliminary), mainly due to an increase in the value of imports (Annex 1.4).
- 1.12 ***Public finances.*** Despite GDP growth performance, the fiscal deficit has widened. The overall balance of the non-financial public sector has followed a downward trend since 2004, moving from a surplus of 1.4%, to an estimated deficit of -7.6% in 2008. By the end of 2009, public sector debt was estimated to have risen to 90.5% of GDP (from 68.0% in 2005), reflecting off-budget projects and deficits in public enterprises. External debt increased by 27% over the period of review, and hovered around 27% in 2009p (Annex 1.5).
- 1.13 Tax revenue is by far the most important source of Government current revenue. In terms of individual components, the most important revenue items are: value added tax (30.5%), company tax (20.6%) and personal income tax (13.8%).<sup>24</sup> From a dynamic perspective, the most noteworthy shift in the composition of revenue in recent years was the rise in relative importance of company tax, primarily at the expense of personal income tax and import duties.

- 1.14 **Monetary policy.** The main objective of monetary policy has been to maintain the fixed exchange rate with the U.S. dollar. The Barbadian dollar has been pegged to the US dollar for over 33-years. The durability of the peg is backed by a strong reserve position, currently equivalent to 20.6 weeks of import cover. Even so, high public-debt levels, together with the sizeable current account deficit, constitute important sources of concern in terms of macroeconomic stability. According to the IMF (2009), the real effective exchange rate, which appreciated from 1.6 to 3.9 over the period of review, is close to its estimated equilibrium. This fact, together with the overall good performance of the tourism sector relative to its main competitors in recent years, does not point to the existence of significant cost-competitiveness problems. Yet, domestic policy adjustments appear necessary to contain external imbalances over the medium term.
- 1.15 **Integration and trade policy.** In January 2006, the CARICOM Single Market and Economy (CSME) was launched;<sup>25</sup> Barbados was a founding member. The purpose of CSME is increased regional integration and competition in the product market through the harmonization of laws (e.g. intellectual property) and foreign investment policy; coordination of fiscal and monetary policies; free movement of goods, services, capital and labor; and measures to acquire, develop and transfer appropriate technology. In 2008, negotiations concluded on a series of regional Economic Partnership Agreements (EPA) with the European Union, which replaced expired preferential trade agreements (under the Cotonou Agreement) with WTO-compliant free trade areas. Both CSME and EPA are still at an early stage, thus the benefits are difficult to quantify. Nonetheless, it appears that there has been some increased migration in specific skill areas, and trade with CARICOM countries is on the upswing.

## **2. Vulnerability to External Shocks**

- 1.16 **Economic openness.** The vulnerability of the country to economic shocks stems from a number of inherent structural characteristics. For example, the small size of its domestic and foreign markets makes Barbados heavily dependent upon external factors, including imports, and in particular, energy, food, and industrial supplies, with limited import substitution possibilities. While departing from already high levels, the country's degree of openness to trade has increased significantly in recent years. In 2007, the sum of exports and imports of goods and services represented over 120% of GDP. Services exports, especially of tourism, are the dominant form of external transactions in Barbados, representing on average almost 80% of total exports in the 2000-2007 period.
- 1.17 **External shocks and natural disasters.** As a small open economy, the country's business cycle is strongly influenced by exogenous changes, especially given the dominant role played by the tourism sector. External shocks — economic, energy, external demand, and real interest rate — constitute a key source of macroeconomic fluctuation in Barbados. These shocks are typically propagated through different channels, and the domestic economy responds by different adjustment mechanisms. Moreover, Barbados is prone to weather events. The geographic location of the island provides a natural base for tourism; it also

exposes the country to periodic episodes of drought and tropical storms. Although Barbados has not been directly hit by a hurricane in over 50 years, it lies in an active hurricane zone, the eventuality of which could be devastating in terms of comprehensive loss.

- 1.18 ***Environmental vulnerability.*** Given Barbados' reliance on its coastal zones for tourism, transportation, and accommodation, a pressing challenge relates to the sustainable development and conservation of these natural resources. Urban population growth and an expanding tourism base pose significant challenges to the coastal and marine environments in terms of solid waste disposal, waste water run-off, and pollutants. A relatively large coastal zone in relation to land mass makes the island prone to erosion and highly susceptible to a rise in sea level. While none of these threats has posed a crisis as yet, the potential for major negative shocks is substantial.

### **3. Growth and Competitiveness**

- 1.19 ***The tourism industry*** is a major source of employment and foreign exchange. The country's relatively low crime rate, well-educated workforce, reliable infrastructure, and attractive natural setting have helped to make it a leading destination in the highly competitive Caribbean market. In 2009, Barbados was ranked #30 among 133 economies in terms of its competitiveness in travel and tourism (WEF 2009). As measured by travel receipts and the number of visitors, the industry has posted significant gains in recent years.<sup>26</sup> In fact, travel receipts grew faster than GDP in every year between 2004 and 2007. As a result, their weight on overall economic activity increased from 27.5% in 2004 to over 30.5% in 2007. In 2008, the economy experienced its first drop in tourism receipts since 2005 (-1.2%). This is more a reflection of the collapse in external demand due to the global recession, than a lapse in competitiveness. A concurrent decline in construction activities (-7.9%) was also registered, as the pipeline of tourism projects funded through foreign direct investment narrowed following the collapse of the international financial markets. Looking towards the future, sustained competitiveness in the sector requires that the country maintain an investment climate that is conducive to FDI, and a tourism product that is recognized as providing value for money. This calls for additional public investment to expand economic infrastructure and further solidify the country's position in higher-end niche markets, such as second homes, and heritage and sports tourism.
- 1.20 The bulk of visitors to Barbados come from English-speaking nations, notably the U.K. and U.S. Recent years have seen the number of tourists from Canada and other CARICOM countries increase, as the US dollar weakened. From a forward-looking perspective, the concentration of tourism inflows in a small number of countries is regarded as a particular source of vulnerability; especially in light of the sharp downturn those economies are undergoing (Annex 1.6). In this context, external demand for tourism is foreseen to continue to fall, due to both income and substitution effects, until employment growth resumes in advanced countries.



- 1.21 ***The offshore financial sector*** is a major contributor to the economy. It accounts for nearly two-thirds of corporate tax revenues, employs over 3,500 people, mostly in high-skill jobs, and serves as a magnet for foreign exchange and technical expertise.<sup>27</sup> In 2009, OECD ranked Barbados in the highest category of international tax centers, signifying its compliance with current international standards. Canada and the United States, with whom Barbados has double taxation avoidance treaties (DTATs), are the most important markets for the sector; however, Canada has begun a process of entering into new DTATs<sup>28</sup> with competitors in the region. This would eliminate or at least reduce certain tax advantages that Canadian companies enjoy in Barbados. In addition, the United States has proposed new regulations that would limit tax arbitrage opportunities offered to U.S. companies.
- 1.22 The country's educated workforce and prime location, close to the financial centers in the eastern U.S., have also made it an attractive base for ***back-office operations*** such as insurance claims processing and database management. Demand for these services has nearly halved over the period of review due to fierce competition from English-speaking countries with larger human resource bases and lower operating costs.
- 1.23 ***Infrastructure.*** The condition of Barbados's core economic infrastructure is relatively good, with an extensive network of roads and public transportation, and national coverage of electricity and telecommunications. In 2007, Government completed a major project that expanded airport capacity to accommodate 1600 passengers per hour in either direction. This has strengthened the country's position as an important hub for tourism and transport. Nonetheless, investment must continue to be made to upgrade and expand core economic infrastructure if the country is to maintain its competitive edge. Of particular importance is the management of water and sanitation infrastructure, the provision of electricity above demand, and improvements in the road network serving the Bridgetown area.
- 1.24 The supply of water faces many challenges. Although the coverage of the public water system is nearly universal, prolonged periods of drought (November - May) and limited ground-water supply, have prompted the U.N. Commission on Water to classify Barbados as one of the 15 most "water scarce" countries in the world. According to the Barbados Water Authority (BWA), in 1978, Bajans used 10 gallons of water per person per day on average. By 2004, the average daily consumption had increased to levels that could no longer be sustained by groundwater recharge: 63 gallons for residents and 179 gallons for tourists.<sup>29</sup> In addition, about 45% of all water production is classified as "unaccounted for," meaning that it is lost through the aging mains or unmetered consumption.
- 1.25 The expansion of economic activity, particularly in tourism and agriculture, depends critically upon the capacity of the system to meet the growing demand for water in a sustainable manner. Thus far, the country has been able to stay abreast of demand through desalination technology; however, associated costs are high, and structural constraints have led to inefficiencies in collections, and a

- growing dependence of BWA on Government subsidies. The management of waste water and its implications for the quality of coastal water, the health of citizens, and the competitiveness of the tourism product must be addressed over the medium term if the pace of economic activity is to be maintained.
- 1.26 Electricity is generated by the privately-owned Barbados Light and Power Company. Between 2002 and 2006, electricity consumption rose by 21%. Solar panels are assembled locally and used widely for water heating, supported by tax concessions. While this technology has relieved some of the demand on the electric grid, additional improvements are required to ensure that the generation and transmission capacity of both traditional and alternative sources of electricity grows in tandem with demand.
- 1.27 Although the road network is well-maintained, traffic congestion in and around Bridgetown has added significantly to the transaction costs of doing business in the capital. According to the Ministry of Public Works, between 1994 and 2006, the number of private cars on the road more than doubled, from 42,821 to 94,496;<sup>30</sup> however, the capacity of the road network has not grown at the same pace. This has resulted in longer commutes, additional wear and tear on automobiles, increased environmental and noise pollution, a rise in automobile accidents, and inefficiencies in the transport of goods and services.
- 1.28 *The labor force* is comprised of fewer than 150,000 people. Between 2004 and 2007, the unemployment rate followed a clear downward trend from 9.6% to 7.4%, in line with the expansion of overall economic activity and the Cricket World Cup. The improvement in employment prospects appears to have benefited both male and female workers in a fairly balanced way. This trend has since reversed in the wake of the 2008 recession, sending unemployment into double digits (10.0%) by the close of 2009 (Annex 1.7).
- 1.29 The emerging greater openness and integration of global trade and foreign investment, driven by a more intensive use of information technology, has precipitated reforms to strategically enhance the country's human resources to meet new opportunities in the 21<sup>st</sup> Century. Nonetheless, the small size of the population relative to the needs of the productive sector means that it is not always possible to find a sufficient quantity of professional and technical specialists to fill all gaps. With the labor market tight and the demand for skills changing, there are rolling shortages of skilled and semi-skilled workers.<sup>31</sup>

### **C. Macroeconomic Policy During Previous and Current Recessions**

- 1.30 In the last two decades Barbados went through two economic recessions: 1990-1992 and 2001-2002. The former was largely rooted in a pronounced and steady erosion of external competitiveness (as measured by the real effective exchange rate); while the latter was mainly driven by the decline in tourism revenue that followed the terrorist attacks of September 11 and the dot.com bubble.

- 1.31 During the recession of 1990-1992 unemployment rates soared to 27%, international reserves plummeted to 1.33 weeks of imports, and external debt increased to nearly 45% of GDP. The Barbadian authorities responded to the crisis by implementing adjustment and reform measures under an IMF stand-by program. Specific actions were taken to reduce the fiscal deficit, notably in the form of tax increases; and cuts in public-sector employment, wages and investment. The authorities resisted, however, the IMF's recommendation of devaluing the currency to stimulate production and employment. Strongly committed to the stability of its currency, the Government of Barbados chose instead to engage in negotiations with employers, unions and workers to cut real wages and thereby regain cost-competitiveness. Such negotiations culminated with the tripartite protocol on wages and prices in 1993, whereby workers and unions agreed to a one-time cut in real wages of about 9 percent, and to keeping future wage demands in line with productivity growth (Henry and Miller, 2008). Overall, the stabilization plan was successful. The fiscal deficit was reduced close to zero, international reserves were reinstated to manageable levels, and cost-competitiveness was progressively restored. The policy stance of the Barbadian Government was supported by the Bank, notably through a number of programs in the area of "*reform and competitiveness*".
- 1.32 After a period of relatively high economic growth and macroeconomic stability, the Barbadian economy entered a new recession in 2001. In response, the authorities adopted a counter-cyclical fiscal stance by incurring a larger fiscal deficit due to higher capital spending. Although the economy recovered fairly quickly, attaining strong growth by 2004, the sustainability of public finances deteriorated significantly. Public debt rose to 67.4% of GDP by 2004, and a sizeable current account deficit (-8.4%) was mounted.
- 1.33 **Outlook.** The impact of the current financial crisis is still unfolding (via tourism, construction and capital inflows); although it does not appear to have had significant impacts on the banking system. According to recent estimates, value added from the tourism industry fell by 6% in the first quarter of 2009 (Central Bank of Barbados, 2009). Long-stay arrivals are estimated to have declined by 9%, reflecting a sharp fall in visitors from the US and UK. Tourist arrivals from other CARICOM countries and non-traditional markets also fell by 19% and 14%, respectively. After barely growing in 2008, GDP is expected to contract by 3% in 2009, and the fiscal deficit to widen in response to counter-cyclical measures, including: (i) a tourism relief fund;<sup>32</sup> (ii) an accelerated public investment program (i.e. roadwork and housing); and (iii) an employment stabilization scheme.<sup>33</sup> In meetings with OVE, the authorities emphasized that while the current situation of public finances leaves little room for a more expansionary fiscal policy, they regard the social contract between Government, employers, and unions, a major asset to secure employment during the downturn (e.g. via wage agreements and reduced working time per employee).
- 1.34 In FY 2009/10, the IMF recommended a decisive fiscal adjustment, and expenditure savings of about 1% of GDP, lest "*the large fiscal deficit and*

*growing debt result in a sharp deterioration of investor confidence;*” In response to the strain caused by the ongoing crises, a 2.5% expenditure cut across all public sector departments was approved in FY 2010/11 by the Government of Barbados.

## II. THE BANK’S PROGRAM IN BARBADOS

- 2.1 This Section analyzes the ex-ante characteristics of the Bank’s Program in Barbados—in other words, what was promised in the Country Strategy (CS). Key questions include whether the Bank’s intended program was relevant, owned by the Government, harmonized with other donors, and based on evidence.

### A. Findings from the 1989-2004 Country Program Evaluation

- 2.2 The last Country Program Evaluation (CPE) prepared by OVE in 2006 evaluated the 1989, 1993, 1996 and 1999 programming papers and related non-financial products.” It concluded that the Bank’s program was relevant to the needs of the country, and that the four country papers *“identified many of the development difficulties facing Barbados, and were consistent over time in recommending where the Bank should address its efforts.”* Furthermore, it deemed the Bank’s program coherent, in that *“all four strategy documents consistently emphasize the same strategic areas: reform and competitiveness, social sectors, and environmental management.”* In terms of program execution, *“the high-level complexity and interdependence of many subcomponents”* was considered a problem in some projects, as was the efficiency of project preparation and implementation. While the CPE was able to document some progress towards the achievement of development objectives in all three strategic areas, the attribution of the Bank’s intervention could not be measured due to the *“lack of information provided for indicators, baselines and targets ... or means of status verification.”*
- 2.3 Looking forward, it recommended that the Bank: (i) *“address the low implementation and execution performance of its projects”* through a diagnosis of previous actions and the utilization of instruments and processes available under the new lending framework; (ii) *“address the low evaluability of the program’s projects”* by retrofitting operations with verifiable indicators; (iii) *“fill the information gap”* in strategic areas by generating data required both for diagnosis and evaluation; and (iv) provide greater access to *“technical assistance through financial and non-financial instruments”* (Annex 2.1).

### B. The 2005-2008 Country Strategy

- 2.4 CS 2005-2008 identified the need for Barbados *“to raise its level of competitiveness relative to that of its main trading partners”* as the principal development challenge facing the country. This assessment emerged from a body of analytical work that was undertaken by the Bank to inform the strategy in areas relating to productivity, the labor market, trade, tourism, and agriculture.<sup>34</sup> The diagnosis was further justified by a description of recent developments in terms of macroeconomic indicators, notably the current account and goods and services

balances, export performance, investment rate, and proxies of cost-competitiveness. Vulnerabilities stemming from a relatively high exposure to “*economic shocks and natural disasters, an undiversified production structure, and high infrastructure costs relative to the population and tax base,*” were also identified as challenges to economic stability, as was “*the need to adjust to an increasingly liberalized trade environment and tighter conditions with respect to the availability of capital resources*” (CS ¶2.9).

- 2.5 Consistent with its diagnosis, the CS identified strengthening “*competitiveness as a basis for sustained growth and improved well-being of the population*” as its goal, and raising “*the capacity of Barbados and its businesses to compete in a changing international economic environment*” as its purpose (CS ¶5.1). To attain this outcome, the Bank focused its program on three strategic pillars: (i) strengthening the environment for private sector growth; (ii) maintenance and improvement in infrastructure and human capital development; and (iii) public-sector institutional strengthening. It dropped, however, the objective of environmental management that was central to the previous CS, and essential to Barbados’ sustained competitiveness in its major economic sector--tourism.

## C. Strategic Focus

### 1. Strengthen the Environment for Private Sector-led Growth

- 2.6 The CS stressed the importance of strengthening the economy’s “*export orientation and performance, and the environment for private sector-led growth.*” Building upon the body of analytical work undertaken by the Bank, and the ongoing dialogue “*between the Bank, the private sector, authorities in Barbados, and within the different parts of the Bank group*”, it proposed the preparation of a Private Sector Development Strategy. According to the CS, the diagnostic and consensus-building activities would serve as a basis for the design of the competitiveness operation identified in the strategy.

- 2.7 The CS also identified small and medium enterprise (SME) development as a strategic priority, with a view to diversify the economy, create jobs, and promote exports. The document advocated that SMEs in Barbados “*often have a limited entrepreneurial orientation as regards risk-taking, and lack financial and management skills and an understanding of the opportunities and hurdles presented by changes in the international economic environment*”, and pointed to the need to support their development by providing training and improved access to finance and business development services. The CS did not, however, provide evidence from its analytical work to support its diagnosis, or to justify the adequacy of the proposed interventions in this area.

### 2. Maintain and Improve Infrastructure and Human Capital Development

- 2.8 The CS identified the need to maintain and improve infrastructure as a way to enhance the environment in which businesses operate, and thereby strengthen competitiveness. It observed that “*transport infrastructure has emerged as a*

*major obstacle to a favorable business climate due to high traffic congestion*” and proposed to support the development of a transport system master plan through the Competitiveness Project. Another area that received attention was low-income housing and neighborhood development, where upgrading would *“support the competitiveness of the tourist industry by providing attractive locations and combating social distress in run-down areas.”* Albeit these are potentially relevant challenges for the country, the strategy failed to substantiate the importance of the proposed interventions with an analysis of their inherent structure, or an assessment of their potential for development. It did not address why housing, the only traditional investment loan in the proposed portfolio, and arguably the financial thrust, should receive 49% of all programmed resources, when the sector was not identified as a Government priority.<sup>35</sup> Moreover, the document lacked any discussion of the merits of the proposed interventions against alternative investments in economic infrastructure, such as water or energy.

- 2.9 The strategy also emphasized the importance of continuing to support human capital development: *“Although Barbados has attained high standards in education, major gaps persist with respect to labor skills and productivity...there are critical shortages of labor in specific professional areas. This suggests that the vocational training and tertiary education institutions are not properly aligned with the needs of the business sector. Accreditation of skilled labour is also an area that warrants attention to facilitate labor mobility.”* Absent from the document is an identification of the specific areas in which skills gaps exist and their root causes.<sup>36</sup> In fact, the CS provided a rather weak assessment of the current situation and main challenges in education and human capital.

### **3. Support public sector institutional strengthening**

- 2.10 The CS identified a number of challenges to public sector institutional strengthening, and saw a role for the Bank not only in financing, but in providing technical assistance and know-how to help *“simplify and modernize critical areas of the public service.”* Moreover, the document stressed that *“management and decision-making processes and procedures need to be modernized to keep pace with the demands of society,”* and that more *“attention needs to be paid to maximizing efficiency [and] cost-recovery...in light of fiscal constraints”* (CS ¶5.13).
- 2.11 *“Improve the efficiency and effectiveness of public sector institutions”* was incorporated as a country objective; and a number of specific obstacles to public sector efficiency were identified as deserving of special attention. These include: (i) *“over-centralized decision-making and dependence on rigid regulations;”* (ii) *“an outdated structure that fails to keep pace with the growing size and complexity of the economy”;* and (iii) the need to simplify and modernize critical areas of the public service, including procurement, standards, and the statistical service (CS ¶2.22). In general, the diagnosis of the CS in this area was more developed than in the other areas; however, the linkage between inefficiencies in the public sector and the competitiveness of the country are not empirically

- demonstrated, and the challenge of centralized decision-making and an outdated public service structure, was not addressed.
- 2.12 The importance of modernizing public procurement was identified as a key priority at several points in the CS, and in the context of addressing the problem of slow implementation which plagues development projects: *“Procurement constitutes a significant bottleneck to the execution of projects financed not only by the Bank, but by other international development institutions as well. The new CS will support the streamlining of procurement with a project already in the pipeline and non-financial products such as training for Government officials.”* Both the diagnosis and the proposed intervention in this area are in line with the findings and recommendations of OVE’s previous Country Program Evaluation.
- 2.13 The CS points to the importance of improving the statistical service with a view to *“provide much-needed data on the labor force and other social indicators to support private sector decision-making and the monitoring of development effectiveness of the strategy and other Government initiatives.”* The proposed operation in this area seeks to address this long-standing weakness of the Barbadian public sector. The fragility of the information system was also identified as a major bottleneck in the previous CPE, wherein OVE recommended that the Bank *“fill the information gap regarding competitiveness and opportunities and capabilities of the poor.”*
- 2.14 Finally, the CS emphasized the importance of strengthening specific areas of the public sector, to improve market access and facilitate cross-border transactions of goods and services. It states that *“market access (due largely to the regulatory framework and lack of consistent application of standards), access to land (understandable given the limited geographical size), and taxation and customs have been identified in investment surveys as areas for improvement.”* The need to strengthen these areas gained further relevance in the context of ongoing progress towards regional integration, and in particular, in light of the establishment of the CARICOM Single Market Economy and the Economic Partnership Agreement. The proposed operation in taxation and customs is justified on the basis that it would foster enhanced revenue collection, and thereby contribute to maintaining an environment of macroeconomic stability--a requirement identified by the CS to foster private-sector growth, and the focus of continued Bank monitoring through ongoing policy dialogue.
- 2.15 Two operations included in the indicative pipeline, Water and Sanitation Sector Strengthening (BA-L1001) and Strengthening Agricultural Health System (BA-L1008) were conspicuously absent from the CS diagnostic. Although potentially relevant to the country’s competitiveness in tourism and trade, the Strategy failed to demonstrate the importance of the proposed interventions with a diagnostic of the main problems in the sector. Neither was identified as a key development challenge in the document, acknowledged as a Government priority, or included in the proposed Agenda for Dialogue. (CS ¶2.28-2.30). Consequently, the rationale for intervention in the sector is missing.

#### **D. Relevance to Government Priorities**

- 2.16 The CS did not provide a thorough discussion of whether or how the proposed interventions would address national development priorities. The document states that “*Barbados has set high priority on making the transition to a more competitive economy, and the Government has declared itself to be permanently in a reform mode. Consequently, there is consistency between the Bank strategy and GoBA in identifying competitiveness as a leading priority for development efforts over the medium term.*” The degree of generality with which the competitiveness challenge is presented in the CS renders unclear the extent to which the proposed actions align with Government’s strategic objectives. In part, this reflects the fact the *National Strategic Plan of Barbados 2006-2025* (NSP), which was in effect at the time that the CS was approved, consisted of six strategic goals, each with multiple objectives, but none with a clear identification of priority, and none linked to the budget (Annex 2.2).
- 2.17 By means of consultation with the authorities in Barbados, this evaluation found that GoBA considers that the Bank’s Program addressed relevant challenges and was generally aligned with the specific objectives and mid-term targets defined in the NSP (Annex 2.3). Indeed, most operations launched during the period of review derived from Government initiatives, supplemented with Bank’s consultations. In this context, GoBA regards the Bank as a good partner for financing operations previously deemed relevant. As a consequence, the Bank had a supporting role in shaping strategies, policies, and programs in the country.

#### **E. Anticipated v. Approved Program.**

- 2.18 Although all loans approved between 2005 and 2009 were included in the indicative lending program, not all programmed loans were approved. CS 2005 included nine loans totaling US\$65.7m. Of these, seven were approved (Table 2.1). Notable among this group is the Competitiveness Program, which was conceptually linked to the Strategy’s development objective through the provision of “*resources for feasibility studies, action plans, training, policy and institutional reform, capacity building, and related investments for strengthening the competitiveness of the country.*” The remaining two projects were withdrawn and replaced by new operations in the same sectors, thus ensuring continuity of effort, and the eventual approval of the Water and Sanitation Systems Upgrade loan.



**Table 2.1: Anticipated v. Approved Loans 2005 – 2009**

No. Operation	Operation Name	Programmed Year	Date of Approval	Programmed Amount US\$	Approved Amount US\$
BA-L1003	Modernization of Customs, Excise and VAT Areas	2005	11/09/2005	5,000,000	4,400,000
BA-L1007	Barbados Competitiveness Program	2006	12/15/2009	10,000,000	10,000,000
BA-L1008	Agricultural Health and Food Control Programme	2007	12/02/2009	3,000,000	20,000,000
BA-L1006	Modernization of the Barbados National Standards System	2007	12/19/2007	5,000,000	5,000,000
BA-L1004	Modernization of the Barbados National Procurement System	2008	12/15/2008	5,000,000	5,000,000
BA-L1009	Modernization of the Barbados Statistical Service	2008	7/28/2008	3,000,000	5,000,000
BA-L1002	Housing & Neighborhood Upgrading Program - Phase I	2008	1/16/2008	32,000,000	30,000,000
BA-L1001	Water Sanitation Sector Strengthening	2005	Withdrawn	2,200,000	--
s/n	Restructuring of Post-Secondary Education	2007	Withdrawn	500,000	--
BA-L1015	Water and Sanitation Systems Upgrade	Not programmed	12/02/2009	--	50,000,000
Source: OVEDA				<b>65,700,000</b>	<b>129,400,000</b>

2.19 The Bank's support was woven across the three pillars of its strategy. Table 2.2 illustrates that while infrastructure and human capital development continued to dominate approvals in terms of volume (79% of the total allocation 2005-2009), there has been a notable shift (5 of 8 new loans) towards institutional reform and capacity building activities, which indirectly impact the private sector environment. This is consistent with the intent of the strategy.

**Table 2.2: Active and Approved Loans by Program Area 2005-2009**

Period	Program Area	# Loans	% Approvals	US\$ m Approved	% Allocation
Active loans as of 2005	Private Sector Growth	-	-	-	-
	Infrastructure & Human Capital	4	80%	133.5	94%
	Public Sector Strengthening	1	20%	8.8	6%
Approved loans 2005-2009	Private Sector Growth	1	13%	10.0	8%
	Infrastructure & Human Capital	2	25%	80.0	62%
	Public Sector Strengthening	5	62%	39.4	30%
Total Loan Portfolio 2005-2009	Private Sector Growth	1	8%	10.0	4%
	Infrastructure & Human Capital	6	46%	213.5	79%
	Public Sector Strengthening	6	50%	48.2	17%

Source: OVEDA

2.20 Strengthening private sector growth was also an expressed objective of the CS. In this context, five of six approved MIF operations focused on the needs of Small and Medium-Sized Enterprises (SMEs) by fostering access to credit, mentoring, and business services (Table 2.3). The Competitiveness loan (BO-L1007), although not effective until 2010, was also designed to address key bottlenecks which affect the efficiency of the movement of goods in Barbados, and to support business climate reforms and other trade and investment promotion activities.

Neither PRI nor IIC were active in Barbados, although a Private Sector Strategy was approved for the country in 2006.

**Table 2.3: MIF Operations 2005 – 2009**

Operation	Name	Approval Year	Instrument	Status	Approved Amount (US\$)	% Disbursed
BA-M1004	Development of Tourism Micro Projects	2009	Grant	Active	150,000	0%
BA-M1007	Private Sector Regional & Global Integration	2009			150,000	0%
BA-M1006	Comprehensive Information Portal for Entrepreneurs	2008			149,000	0%
BA-M1001	Institutional Strengthening of the Savings and Loan Cooperative Sector	2005			840,000	30%
TC0203029	Strengthening of Airport Security	2006			455,737	10%
BA-M1002	Mentoring Model to Develop Young Entrepreneurs	2006	Loan/Grant	Active	490,000	47%
Source: OVEDA					Total MIF Operations	1,934,957

2.21 Given Barbados' access to financial markets, the strategy stressed the role of drawing upon TCs and non-financial products to enhance the Bank's value-added in key sectors. In this context, eight non-reimbursable TCs were approved over the life of the program to strengthen the public sector's capacity to facilitate trade and business services, and to manage for results (Table 2.4). Six of the eight TCs were aligned with Bank loans.

**Table 2.4: Nonreimbursable Technical Cooperation 2005-2009**

No. Operation	Operation Name	Approval Year	Operation Status	Approved Amount (US\$)	% Disbursed
BA-T1012	Education Sector Studies	2009	Active	365,000	0%
BA-T1010	Preparation of Water & Sanitation Program	2009	Active	400,000	0%
BA-T1009	Project Digital Brazil	2009	Complete	6,053	100%
BA-T1008	Studies for the Upgrade & Expansion of Natural Gas	2009	Active	500,000	0%
BA-T1007	Sustainable Energy Framework	2009	Active	1,000,000	29%
BA-T1004	Strategy to Strengthen Trade Logistics and Trade Facilitation	2007	Complete	156,000	97%
BA-T1003	Strengthening Government Capacity to Manage for Results	2007	Active	450,000	5%
BA-T1002	Strengthening of Business Facilitation Services	2005	Active	150,000	100%
Source: OVEDA				Total TC Operations	3,027,053

## F. Learning from Previous Programming Cycles

2.22 The CS contained a discussion of the previous program's development objectives. It acknowledged that many performance indicators were defined at the output rather than outcome level, and did not generally include quantitative baselines, targets, or timetables, making the assessment of objectives difficult. Nonetheless, it argued that such indicators provided some guidance for assessing development

- effectiveness in qualitative terms, and concluded that the Bank's support had some limited positive impact on eight of 15 strategic objectives. This assessment builds on fragile evidence.
- 2.23 The CS acknowledged that the previous program was *“overly ambitious and could not accomplish most of its objectives, even by 2005, implying that the Bank and Barbados should be more realistic and more modest in setting objectives and targets from the new CS.”* It further mentioned that *“the large number of initiatives that were cancelled or delayed (sometimes over more than one strategy period) shows that project development and implementation problems are one of the main obstacles limiting development effectiveness.”* The CS drew three main lessons from this experience: (i) project design and execution should be more manageable, with well focused operations of *“moderate size and anticipated duration, and have relatively narrow and well-defined objectives”*; (ii) the Bank needs *“to address difficult policy issues prior to launching new investment projects,”* notably through reimbursable technical cooperation, pilot activities within other loans, and non-financial products; and (iii) the Bank should assist Government to streamline public procurement.
- 2.24 Although explicitly mentioned in the document, these lessons were only partially incorporated in the strategy's programming intent. In line with these orientations, a number of proposed operations in the area of public sector institutional strengthening drew upon sector facilities which were more narrowly focused and of moderate size. Likewise, the CS included targeted projects to modernize Government procurement (BA-L1004) and improve the statistical service (BA-L1009). On the other hand, the CS continued to include large, complex, and broadly focused programs, such as the Housing and Competitiveness loans, and continued to lack an appropriate set of outcome indicators to measure the Bank's development effectiveness.

## **G. Evaluability**

- 2.25 In general, the CS was characterized by a low level of evaluability. The soundness of the diagnostic was hindered by the lack of a consistent definition of the competitiveness challenge throughout the document. For example, the Executive Summary defines competitiveness as *“improving economic efficiency and productivity, resulting in higher profitability, production and performance in domestic and foreign markets.”* In Chapter 2, the CS adopts the Bank's definition of competitiveness: *“the quality of the economic and institutional environment for the sustainable development of private productive activity and the increase in productivity.”* In essence, by defining competitiveness in such broad terms, any policy intervention at the macro, institutional, or social level could be deemed consistent. Ironically, no indicators were proposed in the Results Matrix to measure the achievement of its strategic objective (Annex 2.4).
- 2.26 At the program level, the strategy posed eight development objectives and 11 performance indicators, of which five were outcomes. Although the strategy provided baselines and targets at the macro-fiscal level, it failed to identify the

contribution of the proposed program to the targets. Hence, the Bank is not in a position to measure its impact.

- 2.27 A number of performance indicators correspond to the outputs of Government actions to which the Bank would only very partially contribute, and are therefore inappropriate to gauge the impact of the Country Program. For instance, the CS set a target of 6% growth in annual export earnings between 2005 and 2008 (against a baseline of 4% average growth in 1994-2003); however, it did not discriminate between the expected results of Government's strategy and the contribution of the Bank. As a result, it's not possible to measure the developmental effectiveness of the Bank's program.
- 2.28 In terms of logic, the CS failed to establish a clear link between the proposed activities and the Program's eight development objectives. In part, this is because the objectives were themselves imprecisely defined (i.e. "Support maintenance of stable macroeconomic conditions.") Despite the body of analytical work undertaken, the CS did not support the alternatives it chose with evidence from the studies. Thus, the relative merits of the proposed interventions cannot be defended against alternatives.

## H. Instruments

- 2.29 The planned mix of instruments was coherent with lessons learned from past strategy execution, and with the needs of the country. Given "the tight fiscal space of the country, the need to better align the Bank's programs with the country's programs and reduce the cost of doing business, [and] the possibility of moving towards greater use of country systems," the CS envisioned a move from traditional investment loans, which comprised 100% of the loan portfolio in 2004, towards sector facilities, reimbursable technical cooperations (TCs), and innovation loans. The CS also included PROPEF, a new instrument, to support the design of the Neighborhood and Housing Project and the Agriculture and Health and Food Safety Program, which given their complexity, required additional technical support in the design phase. (Table 2.5).

**Table 2.5: Approvals by Instrument 2005-2009**

<b>1. Investment Loans</b>	<b>99,400,000</b>
Sector Facilities (4)	19,400,000
Traditional Investment Loans (4)	80,000,000
<b>2. MIF Operations</b>	<b>1,934,957</b>
MIF grants (6)	1,484,957
MIF loan (1)	450,000
<b>3. Non-Reimbursable Technical Cooperation (8)</b>	<b>3,027,053</b>
<b>4. PRODEV</b>	<b>450,000</b>
<b>5. PROPEF (2)</b>	<b>1,780,000</b>
<b>Total Active Portfolio (1+2+3+4+5)</b>	<b>198,392,010</b>

Note: The Active Operational Portfolio does not include the three loans which were approved by the Bank in December 2009, but which did not become effective until 2010.

## **I. Donor Coordination**

- 2.30 The evaluation found that the Bank has cultivated a good relationship with other donors, and maintains a sound, though mostly informal coordination of activities. Apart from the IDB, the Caribbean Development Bank (CDB), European Commission (EC), and European Investment Bank (EIB) are major development partners. CDB maintains an active portfolio in the productive sectors, economic infrastructure, health, and education, and coordinates directly with the Bank at the project level through co-funding for the Education Sector Enhancement Program (ESEP). In 2008, its disbursements totaled US\$25.2m. CDB also participated with Government authorities and representatives of civil society in the review of analytical inputs for CS 2005, and is presently developing a strategy to guide its 2010-13 program. Although the World Bank (WB) graduated Barbados in 1993, special permission was granted by its Board of Directors in 2003 to support its participation in a regional HIV/AIDS initiative. Subsequently, in 2009, the WB approved a US\$35m loan to implement the country's 2008–2013 National HIV/AIDS Strategic Plan, and is presently exploring whether it can resume policy-based lending. EIB has a long-standing tradition of financing infrastructure, while the EC has recently moved from project funding (with disbursements averaging €7.5m per year over the period of review) to budget support.

## **III. THE BANK'S PROGRAM IN EXECUTION**

- 3.1 The goal of this chapter is to analyze the execution of the Bank's operational portfolio in Barbados, including all projects that were active, completed or cancelled during the period of review. Loans that were not effective as of the close of 2009 are not included in the analysis of portfolio execution or results.<sup>37</sup>

### **A. Portfolio Description**

- 3.2 This is a mixed portfolio comprised primarily of traditional investment loans that were approved under the previous three Country Programs, and a blend of smaller operations approved over the current period of review. Although the aggregate performance of the portfolio reflects structural problems associated with procurement delays and execution capacity, there has been positive movement towards implementing more targeted operations, and solving long-standing problems in the older projects.
- 3.3 The total value of all loans in execution between 2005 and 2009 peaked at US\$191.7m, which is one of the smaller portfolios in the Bank (Table 3.1). In per capita terms, however, this allocation (US\$700) is greater than that of most other upper and upper middle-income borrowing countries, such as Trinidad and Tobago (US\$176) and Jamaica (US\$347).<sup>38,39</sup> The only country to have a higher per capita allocation is The Bahamas, which reached US\$718 between 2005-2008. The relatively high per capita investment in Barbados is, in part, the result of a small population base that cannot benefit from economies of scale.

**Table 3.1: Barbados Operational Portfolio—Loans in Execution 2005-2009<sup>40</sup>**

No.	Operation Name	Approval Year	Operation Status	Approved US\$	Current. US\$	% Disbursed	Extension (months)
BA-L1002	Housing & Neighborhood Upgrading Program - Phase I	2008	Active	30,000,000	30,000,000	6%	
BA-L1004	Modernization of the Barbados National Procurement System <sup>m</sup>	2008	Active	5,000,000	5,000,000	10%	
BA-L1009	Modernization of the Barbados Statistical Service	2008	Active	5,000,000	5,000,000	6%	
BA-L1006	Modernization of the Barbados National Standards System	2007	Active	5,000,000	5,000,000	8%	
BA-L1003	Modernization of Customs, Excise & VAT Areas	2005	Active	4,400,000	4,400,000	27%	12
BA0019	Coastal Infrastructure Program	2002	Complete	17,000,000	17,000,000	99%	32
BA0055	Administration of Justice	2001	Active	8,750,000	8,750,000	24%	60
BA0009	Education Sector Enhancement Program	1998	Complete	85,000,000	60,034,063	100%	48
BA0025	Solid Waste Management	1998	Cancelled	13,000,000	0	0%	60
BA0047	Bridgetown's Roads and Safety Improvement	1993	Complete	18,500,000	18,500,000	100%	95
<b>Total Operational Portfolio</b>				<b>191,650,000</b>	<b>153,684,063</b>		

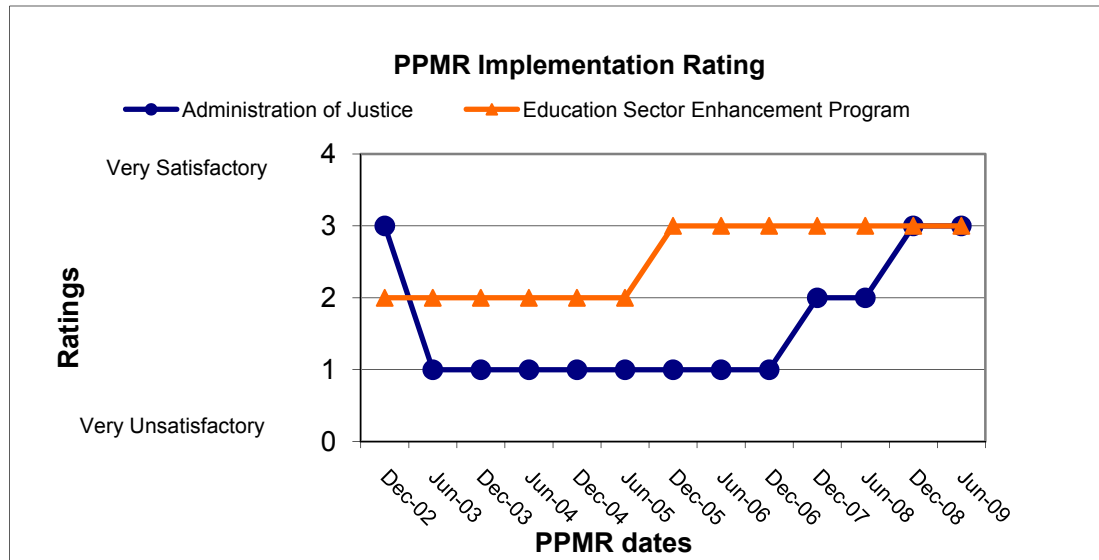
- 3.4 In terms of volume, the five investment loans that were approved between 1993 and 2002 comprised 74% of the operational portfolio. This cohort of loans consists of large, complex projects that attempt to implement institutional reforms in tandem with structural reforms.
- 3.5 Between 2005-2009, eight new loans were approved, of which five were effective by the close of 2009. Of the active loans, four drew upon sector facilities, and the fifth, Housing and Neighborhood Upgrading (BA-L1002), was staged as a multi-phase operation. The selection of sector facilities indicates that the portfolio is moving towards defining projects that are more focused in their objectives, and better aligned with the country's execution capacity.

## **B. Portfolio Performance**

- 3.6 Historically, Barbados has had one of the lowest performing portfolios among borrowing countries in terms of disbursements and portfolio age. The older group of operations is characterized by protracted disbursements, and extensions which ranged from 32 to 95 months. The cancellation of the Solid Waste Management project in 2006, without any disbursement, and the low disbursement pace of the Justice and Education loans drove performance over the period.
- 3.7 The Education Sector Enhancement Program was extended for 48 months and Administration of Justice for 60. Both projects were designed as reforms in their corresponding sectors with ambitious goals for the planned time frame. These large projects have many different components which were managed as discrete projects by their Implementation Units. For example, Justice was comprised of 14 components that spanned an equal number of Government agencies. The

extension of the two loans implied design reformulations to improve their execution and relevance. In both instances, the reformulations aimed at reducing each project’s scope to a more realistic level, while maintaining the original project objectives. This intervention produced noticeable improvements in the implementation of both loans, as recorded in their PPMRs (Graph 3.1).

Graph 3.1



3.8 By contrast, the decision to extend the Solid Waste Management loan was costly, and did not yield the desired results. Following eight years of execution delays, the project lost momentum. The reformulation was never implemented, and the loan was cancelled without any disbursement (Box 3.1).

**Box 3.1: Costs of the Solid Waste Management Project Cancellation**

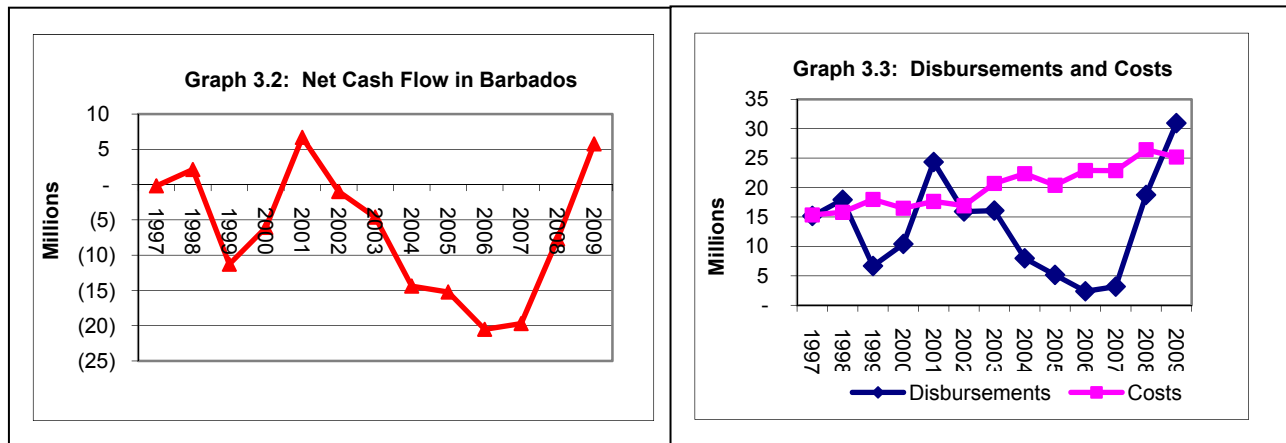
(Taken from Project Assessment, 2007 by Euric Bobb)

The program’s objective was to support the GoBA’s effort to establish a modern, dependable and efficient waste management system designed to protect the environment and improve the public health. From loan approval in 1998 to its cancellation in 2006, there was a story of delays between the GoBA and the Bank, mainly relating to the bureaucratic international competitive process. The main bottlenecks were the complex procurement and tendering process at GoBA and lengthy “no objections” by the IDB to this process. The project lost momentum and was to be changed and adapted; however, the delayed execution caused tensions between the two parties up to the moment that the project was cancelled, and the GoBA looked for other sources of funding.

During the eight years between the project’s approval and cancellation, both GoBA and the Bank incurred substantial costs, even though the project was never eligible for disbursement. The clearest example is the cumulative US\$406,330 that GoBA paid in commitment fees. The Bank also accrued high administrative costs during the life of the loan contract. These costs included the time of headquarters and country office staff, travel, and consultants that were hired from time to time. Some estimates of these numbers are: staff \$165,008; consultants \$78,711, and travel \$14,132.

At a strategic level, the Bank has to internalize that the “hassle” factor of doing business could drive some borrowers to look for other financing, and thus eroding the relevance of the Bank as a development agency.

3.9 The low disbursement rate of the portfolio is reflected in the negative flow of net cash resources from 2002-2008 (Graphs 3.2 and 3.3). Delays in execution entail additional costs for the country in terms of unscheduled commitment fees, higher fixed costs, and the postponement of results. These costs are generated either by delays in meeting agreed criteria for disbursement, or by delays in project completion. The flow of resources to the country was further aggravated by the protracted preparation of the new cohort of loans under CS 2005. According to the Bank’s Data Warehouse, loans approved between 2005 and 2009 averaged 35.6 months to prepare (from pipeline start to approval), and 12.6 months to transition from approval to disbursement. In terms of execution, the average extension for the six oldest loans in the operational portfolio was 51.6 months.



3.10 Although the flow of net cash resources continued to be negative through 2008, the downward trend began to reverse in 2007, following the reformulation of the Education and Justice loans, and the resolution of serious bottlenecks in the Coastal Infrastructure Program. Also contributing to the improved cash flow was a narrowing of the gap between loan approval and disbursement eligibility in the new cohort of loans. This improvement corresponds with the introduction of smaller, sector facilities in the portfolio, and with changes in the composition and allocation of staff in the Barbados Country Office (CBA) following the realignment (see ¶3.13). Additional momentum was gained in 2009, when two of the oldest and largest loans in the portfolio (Coastal Infrastructure and Education) fully disbursed, resulting in a positive flow of net cash resources to Barbados.

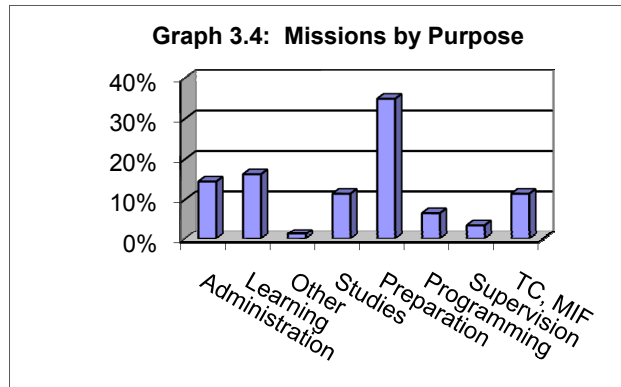
3.11 According to the Project Performance Monitoring Reports (PPMRs - Annex 3.1), the main performance issues in project execution are procurement, executing agency capacity, inter agency coordination, and compliance with contractual conditions. These issues were observed in the earlier CPE and raised by stakeholders interviewed by OVE.

**C. Bank Supervision**

3.12 Graph 3.4 shows the number of missions by purpose during the analyzed period. According to the Banks information systems, loan preparation is the most



demanding of time and resources. The other major purpose for missions are “learning events”, which can be associated with the Bank’s technical value-added in the country or the region. The less-frequent supervision missions are an aspect to improve since these are viewed as a valuable tool to accelerate project execution, particularly where the Team Leader is not located in situ.



- 3.13 Between 2005 and 2008 the country office was not staffed to its full compliment. For instance, it was not until the second semester of 2008 that the Barbados Country Office (CBA) received an operations officer, financial specialist, and operations analysts. By then, the office had been without a Financial Specialist for nearly two years. In addition to its national program, CBA also administers numerous regional programs, including regional MIFs, but did not have a MIF Research Fellow until 2008. According to the 2008 internal Bank audit report, supervision aspects such as the management of revolving funds and procurement functions have improved since introducing the new staffing pattern.

#### IV. RESULTS

- 4.1 As a norm, CPEs seek to evaluate the developmental effectiveness of the Country Program in areas identified by the strategy. However, as discussed in Chapter II, the Results Matrix did not associate measurable indicators with the Program’s strategic objective. Furthermore, the indicators assigned to measure the impact of the Program’s eight specific objectives were overly general, and therefore could not be used to measure the Bank’s attribution. For this reason, this chapter will focus on project-level outcomes.
- 4.2 The ex-ante evaluability of loan documents revealed that 48% of the loans had a complete metric (baseline, milestones, and target) to measure impact; however, only four of the ten loans in execution were considered sufficiently mature to analyze for impact – Modernization of Customs, Excise and VAT Areas, Bridgetown Roads and Safety Improvement, Education Sector Enhancement Program, and Coastal Infrastructure. The remaining loans were either cancelled, less than 25% disbursed, or less than two years in execution.

##### A. The Environment for Private Sector-led Growth

- 4.3 The competitiveness of the economy and its attractiveness for FDI inflows depends, among other factors, on the health of the economy and the environment for private sector-led growth. The goal of the US.\$4.4m **Modernization of Customs, Excise and VAT Areas (BA-L1003)** project is to “assist the GoBA in

*its efforts to improve the efficiency of the Customs and Excise Department (CED) in order to contribute to steadily improved tax revenues, facilitate and expedite legitimate commerce and travel; and improve Barbados' competitiveness in the global economy.” Specific objectives aim to: “(i) facilitate foreign trade operations and strengthen customs administration; (ii) improve compliance with the VAT and excise tax obligations; and (iii) strengthen the CED's institutional management capacity.”*

- 4.4 Approved in 2005, after an initial slow start, disbursements have reached 27%. Sixty percent of this activity occurred in 2009. The PPMR classified the project's overall Implementation Progress as “satisfactory”, stating that: *“There has been some difficulty in finding candidates with the specific skills set for the required consultancies. This contributed to the delay in start-up.”* Other contributing factors include consultant prices that are denominated in US\$, and which are considered low compared to the fees obtained in EU countries and Canada (on an after tax basis). In terms of impact, none of the seven planned outcomes have been achieved. Of the 19 output indicators, one milestone has been achieved. Nonetheless, according to the most recent PPMR, CBA considers it probable that the project will accomplish its development objectives given Government's recognition of *“the need for a more efficient and modern tax and customs system to increase revenues, facilitate commerce, and improve competitiveness,”* and recent efforts to streamline tax policy with the support of the IMF.
- 4.5 While the proposed actions could help to improve the efficiency of the CED, which could eventually lead to increases in revenues and expedite commerce, others were overlooked. In the specific case of customs and excise taxes, changes in the audit system would imply completely different skills for staff (e.g., from ex-ante inspection at ports of entry to ex-post inspection), a change that is not addressed by the program. Some potential risks were also ignored. For example, human capital and implementation risks cannot be solely addressed by having a strong collaboration with CED staff in the preparation of the operation; and there is no mention of political risks, such as debate in the legislature, or confounding pressure from external economic shocks, such as the current recession. The original expiration date of the project was April 2010. An 18 month extension has been granted.

## **B. Improve Infrastructure and Human Capital Development**

- 4.6 The service provided by the transportation network is vital to the nation's economy, its attractiveness as a tourist destination, and competitiveness in terms of the ease of doing business. Although Barbados's road network is considered good in terms of quality and coverage, the capacity of the system to absorb the increased flow of traffic emerged as a major obstacle to competitiveness in the 1990s. As a result, the cost of doing business in the capital has grown in terms of the time required to transport goods and the related expense of delivering services. Associated negative impacts include environmental degradation (air, noise, and environmental pollution) and vehicular wear and tear. Slippage in the

- maintenance of the transport network has also undermined the efficiency of the road system, as has the increase in registered motor vehicles and accidents.
- 4.7 In 1993, the Bank approved the US\$18.5m **Bridgetown Roads and Safety Program (BA0047)**. The development objectives of the loan were to: “(i) *reduce vehicle operating costs through improved traffic flow on the two primary road corridors around Bridgetown through the construction of 7.8 km of urban streets; and (ii) improve traffic control and management practices.*” The project experienced delays for a number of reasons, including the lack of a dedicated Project Execution Unit (PEU) due to delayed approvals. It was finally completed in 2006 following a 95 month extension and a nearly 50% increase in the cost of the infrastructure.
  - 4.8 The PCR states that “*satisfactory but lower than projected benefits were achieved from the project.*” For example, in the Project Report, the economic rates of return were estimated at 56% for the inner corridor and 42% for the outer. A risk analysis conducted for the ex-post evaluation showed, however, that the IRR was closer to 12%. In terms of the first objective, the ex-post economic analysis concluded that “*improved traffic flows [were] achieved as planned*”, and that there “*was a reduction in travel times after project completion [of 0.32 and 2.31 minutes for the inner and outer ring respectively], but not as much as predicted at project design.*” As for the second objective, the PCR affirmed that institutional strengthening measures “*were implemented for traffic regulatory and enforcement agencies,*” including a mandatory seatbelt law and increased fines for offenses. Although statistics were not available to determine the impact of these interventions in terms of reducing accidents or injuries, the international literature sustains their effectiveness.
  - 4.9 As discussed in Chapter 1, successive administrations have viewed continuing investment in the development of its human resource endowment as a critically important strategy for remaining educationally and economically competitive in the skills-intensive economy of the 21st century. In fact, having a well-skilled human resource base is at the core of the country’s development model.
  - 4.10 In 1998, the Bank approved the US\$85.0m **Education Sector Enhancement Program (BA-0009)**. The resources were part of a larger, seven-year, US\$213m educational reform that envisioned modernizing the education system as a means to prepare the country for an information and technology-based economy. The program also received US\$31.5m in parallel financing from the CDB.
  - 4.11 The proposed reform encompassed the entire primary and secondary sector, and had multiple development objectives, including: “(i) *improved outcomes at the primary and secondary school levels; and (ii) improved range and relevance of skills acquired by school leavers during their period of schooling.*” Its purpose was to ensure that the teaching methods and materials used in the schools reflect the shift that was taking place in the economy (from an agrarian to a knowledge-based society). To accomplish its objectives, the program envisioned a shift in pedagogy from traditional teacher-led instruction to student-centered learning, and

- thus, the development of a human resource base of life-long learners. The loan was comprised of five components: (i) review and updating of the core primary and secondary curriculum to support the shift in pedagogy; (ii) the intensive infusion of technology into the system at all levels; (iii) the rehabilitation of all public and private schools to support the implementation of the new instructional model; (iv) human resource development and training to strengthen the capacity of the teaching corps to deliver the new pedagogy; and (v) institutional strengthening of the Education Ministry to lead the reform process.
- 4.12 The project was rated unsatisfactory in terms of implementation progress from 2002 to 2005, when it was reformulated. As noted in the previous CPE, *“this is a complex project, and its implementation was expected to be difficult. The design called for flexibility and a “test and fix” approach in order to meet the expected uncertainties. In spite of the preemptive measures and coping mechanisms in the project design, the risk factors contemplated in the loan document materialized: slippage in implementation, design uncertainty, and weak institutional capacity.”* The reformulation resulted in simplification of the technological model based upon lessons learnt from six years of formative assessment and widespread access to wireless technology. It also led to a reduction in the scope and resources required to complete the project, and a corresponding cancellation of US\$25.0m in loan resources. Following the reformulation, project execution has been rated satisfactory in successive PPMRs, and a four-year extension of the original loan contract was granted.
- 4.13 By the close of the loan in December 2009, ESEP had exceeded four of the six end-of-project outcomes associated with its two development objectives, and demonstrated significant progress towards the remaining two. These include an: (i) increase in the number of students sitting CXC examinations (target: 5%, met: 20%); (ii) increase in pass rates in CXC --English (target: 10%, met 20%); (iii) increase in pass rates in CXC --Math (target: 10%, met: 49%); (iv) computer mastery achieved by 75% of school leavers (met 78%); (v) decrease in the number of students scoring less than 30% in Mathematics in the Barbados Secondary Schools Entrance Examination (BSSEE) (target: 50%, met: 47%); (vi) decrease in the number of students scoring less than 30% in English in the BSSEE (target: 50%, met: 41%). The project is considered sustainable in that *“The new Government continues to be committed to the programme and considers it a priority to national development. A number of outputs that will contribute to meeting the development objectives have already been realized and both teachers and students remain receptive and enthusiastic towards the programme’s innovations (June 2009 PPMR).”*
- 4.14 In terms of outputs, ESEP has only met one of five planned targets: (i) revised curricula, relevant software, and monitoring and evaluation mechanisms in place in all schools. The remaining four targets have only been partially met: (ii) an operational Project Monitoring Information System (90% complete); (iii) 4,000 teachers and administrative, and Ministry personnel trained (66% complete); (iv) 77 schools rehabilitated (42 schools completed); (v) information and

- communication technology infused in 78 public schools (37 completed). A positive externality that was not planned is the extension of training in IT to community members after hours; however system-wide data on community participation was not available.
- 4.15 The previous CPE observed that *“one of the design features of ESEP was the importance given to evaluation. The program called for the establishment of the Educational Evaluation Centre with the UWI, a monitoring and evaluation data gathering process, midterm and ex post evaluations. Given the complexity and uncertainty inherent to a major educational reform, it was stressed that adjustments should be made continuously based on evidence generated and summarized by the project.”* Results from a 2005 external evaluation of the project<sup>41</sup> suggest that although EEC was generating useful formative data on project implementation and performance outcomes, this information was not always used to inform decisions. The project management information system that was to be put in place within the Education Ministry to track performance indicators has not been implemented. Baseline data were not available until 2005. Thus, it is not possible to determine the attribution of the Bank. OVE is presently collaborating with EEC and GoBA on the project’s ex-post evaluation.
- 4.16 The original objective of refurbishing the physical plant of all schools to an acceptable state for technology access will not be met by loan completion (December 2009). Whilst the authorities have expressed their commitment to deliver the full benefits of the ESEP to all schools following the completion of the loan, a potential risk is execution fatigue, as discussed in Chapter 3. A final impact evaluation is anticipated for 2010.
- 4.17 Government has identified coastal zone management and development as a top priority for continued competitiveness in its largest economic sector -- tourism. Approved in 2002, the **Coastal Infrastructure Project (CIP, BA-0019)** is the second of two Bank loans in the sector. The purpose of the US\$17.0m operation was to ensure a healthy environment and continued economic development of Barbados through the improved management and conservation of the coastal zone. The program was comprised of nine subprojects that related to four specific objectives: *“(i) shoreline stabilization and erosion control; (ii) restoration of coastal habitats; (iii) improved public coastal access; and (iv) institutional strengthening of coastal management.”*
- 4.18 From the start, land acquisition was a problem. Unlike the earlier loan, whose projects revolved around crown land, CIP projects required the acquisition of land from private land owners. This was met with significant resistance. Additional setbacks resulted from: (i) reliance on actions not under the control of CIP, such as zoning and permits, and negotiations with the private sector; (ii) two different sets of financial and procurement rules (GoBA and the Bank); (iii) an overheated local construction industry; and (iv) a small pool of companies with expertise building in fragile coastal zones. None of these challenges were identified as risks in the loan.

- 4.19 Given the slow pace of execution, and significantly higher execution costs than anticipated, the project was reformulated in 2007 and again in 2008. As a result, objectives two and three were dropped, along with all related activities. In regard to the objective of shoreline stabilization and erosion control, as of June 2009, beach volume had increased by 14,000 cubic meters, with a target of 16,500 planned by EOP. All of the outputs related to the institutional strengthening objective have been achieved. Operating under a 32 month extension, the loan was 99% disbursed by December 2009.
- 4.20 A **Solid Waste Management Program** (BA-0025) was approved in 1998 for US\$13m. The objective of this loan was to develop a modern waste management system to protect the environment and improve public health. As of the close of 2006 no funds were disbursed and the loan was cancelled.

### C. **Public Sector Institutional Strengthening**

- 4.21 The CS identified a vast array of competitiveness factors in Barbados, among which feature prominently several aspects concerning Modernization of the State. In particular, it stressed that “*market access (due largely to the regulatory framework and lack of consistent application of standards), access to land (understandable given the limited geographical size), taxation and customs have been identified in investment surveys as areas for improvement.*” Furthermore, the CS highlights the importance of *simplifying procurement*, a significant bottleneck to the execution of projects financed not only by the Bank, but by other international development institutions as well. Finally, the CS points to the importance of maintaining a strengthening the **statistical service** with a view to “*provide much-needed data on the labor force and other social indicators to support private sector decision-making and the monitoring of development effectiveness of the strategy and other Government initiatives.*” Loan operations were approved in all three areas; however, none was sufficiently advanced to evaluate for impact.
- 4.22 Neither the **Administration of Justice** (BA-0055) nor the **Housing and Neighborhood Upgrading** (BA-L1002) loans met the criteria for the evaluation of results, although the former was approved in 2001.

## V. **CONCLUDING OBSERVATIONS**

- 5.1 Over the period of review, the Bank’s Program in Barbados was characterized by a low level of evaluability,<sup>42</sup> protracted execution, and few results. Although the CS was perceived to be relevant to the objectives of the National Strategic Plan (2006-2015) at the time that it was conceived, the Country Program lost momentum due to significant delays in project execution. This led to a relationship that was costly for both partners in terms of time, resources, and ultimately, a low-performing portfolio.

- 5.2 Both the CS and the previous CPE identified the slow pace of project execution as an inherent characteristic of the portfolio. This observation is at odds with the country's governance and administrative capacity. Although not resolved, disbursements improved substantially in 2008 and 2009, enabling the country to achieve a positive net cash flow by the close of 2009.
- 5.3 The future success of the Bank's partnership with Barbados will depend on the establishment of realistic and focused targets for its own performance, and the addition of greater technical value to its financial contribution.<sup>43</sup> This means that analytical work must be more deeply integrated into the formulation and discussion of the Bank's policy response, and technical assistance more tightly woven into the design, execution, and supervision of the operational portfolio. The transfer of knowledge and technical assistance, in turn, will be essential to securing support from institutions and stakeholders throughout implementation. In addition, more groundwork needs to be done to facilitate a successful transition to results-based management in Government, and to strengthen national systems for use in Bank-financed projects. Attention to external competitiveness is likely to remain an important issue over the medium term since this constitutes the principal means of ensuring steady economic growth.

#### A. Findings

- 5.4 **Relevance.** As conceived, the Bank's strategy was generally integrated with Government priorities and objectives. Authorities interviewed by OVE for the CPE considered Bank projects to be important and relevant. Most projects were derived from Government initiative, followed by consultations with the Bank. As a result, the Bank had a supportive role in shaping the programs and policies of the country.
- 5.5 To inform the strategy, the Bank initiated analytical work related to competitiveness, productivity, the labor market, trade, tourism, and agriculture. Despite this body of research, the CS did not present evidence to support the alternatives it chose, and overlooked one of the most pressing challenges to sustainable development in Barbados -- the efficient management of the country's limited water supply, including the treatment of wastewater -- in its discussion of key development challenges.
- 5.6 Consistent with the previous four strategies, CS 2005 assigned priority to three areas of competitiveness: (i) the economic environment for private-sector led growth; (ii) improvement in infrastructure and human capital development; and (iii) public sector institutional strengthening. The objective of environmental management, which is considered essential to the country's sustained competitiveness in its major economic sector, tourism, was dropped without explanation.
- 5.7 Barbados' development model seeks to capitalize on the strength of its skilled workforce and quality of its infrastructure. Over the period of review, infrastructure and human capital development dominated the loan portfolio in

terms of volume (79% of the total allocation 2005-2009) and results. Strengthening private sector development was an expressed objective of the CS. In this context, five of six approved MIF operations focused on the needs of Small and Medium-Sized Enterprises. Although not effective until 2010, the Competitiveness loan (BO-L1007) was designed to address key bottlenecks which affect the efficiency of the movement of goods in Barbados, and to support business climate reforms and other trade and investment promotion activities. The Bank approved a Private Sector Development Strategy for Barbados in 2006; however, neither PRI nor IIC were active in the country.

- 5.8 The Bank only partially utilized its programming to “lay the groundwork for moving toward greater reliance on the government's systems...” (CP ¶3.13). Outside of identifying constraints relating to procurement and statistics, it did not review the country’s fiduciary, financial management, planning, monitoring, or evaluation capacity; nor did it suggest a plan to migrate toward the adoption of country fiduciary, planning, auditing, or monitoring and evaluation systems in Bank projects.<sup>44</sup> Although the strategy stated that the Bank would use PRODEV resources to “*stimulate public sector results-based management and efficiency*”; it did not identify the context of this support.
- 5.9 **Coherence.** The planned mix of instruments was coherent with lessons learned from past strategy execution, and with the needs of Barbados. Given the tight fiscal space of the country and the imperative to reduce the transaction costs of doing business, the CS shifted the Bank’s focus from traditional investment loans towards more flexible lending instruments, including sector facilities, reimbursable technical cooperations (TCs), and innovation loans.
- 5.10 **Evaluability.** The soundness of the diagnostic in the document was hindered by the lack of a clear and consistent definition of the competitiveness challenge and the failure to identify its root causes. Neither the goal nor the specific objective of the strategy were measurable. Although reasonable performance indicators, baselines, and targets were provided at the macro-fiscal level, the CS failed to identify the contribution of the Bank’s proposed interventions to achieve the set targets. By not doing so, it also failed to assume responsibility for its own developmental impact.
- 5.11 **Execution.** Historically, Barbados has had one of the lowest performing portfolios among borrowing countries in terms of disbursements and portfolio age. This low rate of execution is reflected in the negative flow of net cash resources from 2002 – 2008. Two of the oldest and largest loans in the portfolio were driven by complex, sector-wide reforms. These programs had broad, competing objectives and generally required significant inter-agency collaboration, institutional reform, and some legislative change. The procurements envisioned under these loans were also large and complex. This often led to splitting the loans into smaller sub-projects for procurement purposes (institutional, legislative, works, training, etc.). As a result, instead of executing one loan, the executing unit for each program was faced with implementing



numerous small projects without a corresponding increase in staff. Although some execution bottlenecks remain, disbursements improved markedly in 2008, following the reformulation of the Education and Administration of Justice loans. The incorporation of flexible instruments into the portfolio, the staffing-up of the Barbados Country Office (CBA), the simplification of Bank procedures following the realignment, and the certification of CBA specialists in low-risk procurement, also facilitated movement towards a more targeted and higher-performing portfolio, as well as a turn-around in the flow of net cast resources to the country by the close of 2009.

- 5.12 With the exception of Water and Housing, loans approved since 2005 are generally smaller, and focus on resolving a specific problem. Sector facilities were incorporated to fast-track project preparation. This cohort of operations is fairly-well aligned with the programmatic intent of the CS, and for the most part, achieved eligibility within three months of approval. It is unknown whether the new loans will execute more efficiently.
- 5.13 ***Results.*** The Government regards the IDB as a good partner and maintains a healthy relationship with the Bank. Nonetheless, the program produced few results over the period of review. Strategic Focus 2, “*Maintenance and Improvement in Infrastructure and Human Capital Development*”, is the only pillar to achieve development effectiveness targets at the project level. These include improved education outcomes at the primary and secondary levels, shoreline stabilization, and erosion control.

## **B. Recommendations**

The recommendations of the Country Program Evaluation are presented in the Executive Summary.

## BIBLIOGRAPHY

- Caribbean Development Bank (2008): Report of the Seminar on The Global Financial Crises and the Caribbean: Impact and Response. Economics Department. Barbados
- \_\_\_\_, (2006): Social and Economic Indicators, Volume XVII. Economics Department. Barbados
- Central Bank of Barbados (2009, 2008, 2007, 2006, 2005, 2004): *Economic Review*. Barbados.
- \_\_\_\_, (2009): *Selected Output Tables*. Research Department, March 2009. Barbados.
- Central Intelligence Agency (2008): World Fact book. <https://www.cia.gov/library/publications/the-world-factbook/geos/bb.html>
- Dammert AC (2006): *Comparative Study of labor market Rigidities in the Caribbean Region*. Department of Economics, Syracuse University, New York.
- Economist Intelligence Unit (2009, 2008, 2007, 2006, 2005, 2004): *Country Report: Barbados*. London.
- \_\_\_\_, (various): *Country Profile: Barbados*. London
- Erickson D, Lawrence J (2008): *Beyond Tourism: The Future of the Services Industry in the Caribbean*. Caribbean Paper No. 3, Centre for International Governance Innovation and the Caribbean Policy Research Institute. Ontario.
- Girban N (2007): *Towards a Single Development vision and The Role of the Single Economy*. Twenty-eighth Meeting of the Conference of Heads of Government of the Caribbean Community. Barbados
- Government of Barbados (2008): *Barbados Economic and Social Report 2007*. Research and Planning Unit, Economic Affairs Division, Ministry of Economic Affairs and Development. Barbados.
- \_\_\_\_, (2007): *Medium Term Strategic Framework of Barbados 2007 - 2009*. Research and Planning Unit, Economic Affairs Division, Ministry of Economic Affairs and Development. Barbados.
- \_\_\_\_, (2007): *Medium Term Strategic Framework of Barbados 2007 - 2009*. Research and Planning Unit, Economic Affairs Division, Ministry of Economic Affairs and Development. Barbados.
- \_\_\_\_. (2007): *Global Excellence, Barbadian Traditions: The National Strategic Plan of Barbados 2006 - 2025*. Research and Planning Unit, Economic Affairs Division, Ministry of Economic Affairs and Development. Barbados.

- \_\_\_\_, (2007): *Report by the Government of Barbados before the United Nations Special Summit on Progress Towards the Attainment of the Millennium Development Goals*, Ministry of Economic Affairs and Development. Barbados .
- \_\_\_\_, (various): *Barbados Labour Market Quarterly Statistical Bulletin*. Manpower Research and Statistical Unit, Ministry of Labour and Civil Service.
- Henry P.B. and Miller C. (2008): *Institutions vs. Policies: A Tale of Two Islands*. NBER Working Paper 14604.
- Inter-American Development Bank (2008): *Report on the 2008 and 2007 Lending Programs and the Lending Program Updates*. Washington, D.C.
- \_\_\_\_, (2006): *Country Program Evaluation: Barbados 1989 - 2004*. (RE-313). OVE/OVE. Washington, D.C.
- \_\_\_\_, (2006): *Barbados: Country Financing Parameters*. (CP-3053-2). RE3/OD6.
- \_\_\_\_, (2006): *Caricom Regional Programming Paper 2006-2010*. RE3/OD6.
- \_\_\_\_, (2005): *Barbados: Country Financing Parameters*. (CP-2676-6). RE3/OD6.
- \_\_\_\_, (2005): *IDB Country Strategy with Barbados*. (GN-2395). Washington, D.C.
- \_\_\_\_, (2004): *Barbados: Trade and Integration as a Strategy for Growth*. INTAL Occasional Paper 28.
- \_\_\_\_, (various): *Briefing Book: Barbados*. RE3/OD6.
- \_\_\_\_, (various): *Programming and Portfolio Mission Reports*. RE3/OD6.
- Inter-American Dialogue (2008): *More Caribbean Islands Looking to Get into Financial Services*. Dan Erikson. Latin America Advisor. Washington, D.C.
- International Monetary Fund (2009): *Barbados: Financial System Stability Assessment—Update*., IMF Country Report No. 09/64, Washington, D.C.
- \_\_\_\_ (2009): *World Economic Outlook, Crisis and Recovery*. April 2009. Washington, D.C
- \_\_\_\_, (2008): *Colonial Origins, Institutions and Economic Performance in the Caribbean: Guyana and Barbados*. Michael DaCosta. IMF Working Paper WP/07/43. Washington, D.C.
- \_\_\_\_ (2008): *Economic Outlook Database*, <http://www.imf.org/external/pubs/ft/weo/2008> .
- \_\_\_\_, (2008): *Vacation Over: Implications for the Caribbean of Opening U.S.-Cuba Tourism*. Rafael Romeau. IMF Working Paper WP/08/162. Washington, DC.

- \_\_\_\_, (2008, 2007, 2006): *Barbados: Article IV Consultation* – Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion. Washington, D.C.
- \_\_\_\_, (2006): *A Small Foreign Exchange Market with a Long-Term Peg*: Barbados. IMF Working Paper WP/06/245. Washington, D.C.
- \_\_\_\_, (various): *International Financial Statistics Database*. <http://www.imfstatistics.org/imf>.
- National Oceanic and Atmospheric Administration (2009): <http://NOAA.gov/hurricanes>
- Ocampo JA (2002): *Small Economies in the Face of Globalisation*. Third William G. Demas Memorial lecture at the Caribbean Development Bank. ECLAC.
- Rojas-Suarez L, Thomas D, eds. (2006): *Barbados: Meeting the Challenge of Competitiveness in the 21<sup>st</sup> Century*. Inter-American Development Bank. Washington, D.C.
- Transparency International (2009): Corruption Perception Index. [http://www.transparency.org/policy\\_research/surveys\\_indices](http://www.transparency.org/policy_research/surveys_indices)
- United Nations Development Program (2009): Millennium Development Goals Monitor. New York. <http://www.mdgmonitor.org/index.cfm>
- \_\_\_\_, (2008): *Human Development Reports: Human Development Index*. New York. [http://hdrstats.undp.org/countries/country\\_fact\\_sheets/cty\\_fs\\_BRB.html](http://hdrstats.undp.org/countries/country_fact_sheets/cty_fs_BRB.html)
- \_\_\_\_ (2007): *Fighting Climate Change: Solidarity in a Divided World*. Human Development Report 2007. New York.
- United Nations Office on Drugs and Crime and the World Bank (2007): *Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean*. Joint Report No. 37820. New York.
- World Bank, (2009): *Governance Matters*. World Bank Institute, Washington, D.C. ([www.govindicators.org](http://www.govindicators.org); [www.worldbank.org/wbi/governance/](http://www.worldbank.org/wbi/governance/)).
- \_\_\_\_, (2009): *World Development Indicators*. The World Bank Group. Washington, D.C. <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:21725423~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html>
- \_\_\_\_, (2008): *Doing Business in Small Island Developing States 2009*. Washington, D.C.
- \_\_\_\_, (2007): *The Impact of Sea level Rise on Developing Countries: A Comparative Analysis*. World Bank Policy Research Working paper 4136. February 2007. Washington, D.C.

\_\_\_\_, (2005): *A Time to Choose: Caribbean Development in the 21<sup>st</sup> Century*. Report No. 31725-LAC. Caribbean Country Management Unit, Poverty Reduction and Economic Management Unit, Latin America and the Caribbean Region. Washington, D.C.

World Economic Forum (2009): *The Global Competitiveness Report 2008-2009*. Geneva.

\_\_\_\_, (2009): *Global Travel & Tourism Competitiveness Report*. Geneva.

\_\_\_\_, (2009): *Global Information Technology Report 2008-2009*. Geneva.

## ENDNOTES

---

<sup>1</sup> 2010 estimate, Government of Barbados.

<sup>2</sup> In 2008, general elections were held and a new Government was formed: the Democratic Labour Party won 20 of the 30 parliamentary seats, and replaced the Barbados Labour Party, which had led Government since 1994.

<sup>3</sup> The Worldwide Governance Index reports aggregate and individual governance indicators for 212 countries and territories over the period 1996-2007 in the following dimensions: voice and accountability, political stability and absence of violence, Government effectiveness, regulatory quality, rule of law, and control of corruption. The ratings are normalized on a 0-1 scale, with 1 being the best. Country percentile rankings are reported in Table 1.1.

<sup>4</sup> The referenced studies can be found in the following publication: Rojas-Suarez L, **Thomas D, eds. (2006): *Barbados: Meeting the Challenge of Competitiveness in the 21<sup>st</sup> Century*. Inter-American Development Bank. Washington, D.C.**

<sup>5</sup> Negative growth in investment rates (from 25% in 1980 to 15% in 2002), the declining availability of development assistance, and likely increases in interest rates were identified as major constraints on capital resources by the 2005 CS.

<sup>6</sup> Evaluability refers to the ability of an intervention to explain its logic and define its anticipated results in measurable terms.

<sup>7</sup> The scope of this contribution may come in many forms from focused analytical work, to greater stakeholder consultation, increased supervision, additional technical cooperation, and a more active support for policy dialogue.

<sup>8</sup> For example, the CS did not demonstrate how the Bank would use financial management software, auditing functions, country-level investment prioritization systems, budgetary systems, or country monitoring and evaluation systems.

<sup>9</sup> Investment loans are one of the Bank's most important lending instruments. They provide resources to finance goods, works and services in support of creating, rehabilitating and maintaining the economic, social and institutional infrastructure of borrowing countries. These loans are provided to both public and private sector entities. Investment loans differ from PBLs and emergency loans in that they are dimensioned upon the estimated cost of the project, and disburse against eligible project expenditures. See IDB Financial Resources, Products and Instruments. <http://knl/frp/pages/299,ENGLISH,KNOWLEDGE+PORTAL+ON+FINANCIAL+RESOURCES+PRODUCTS+AND+INSTRUMENTS.html>

<sup>10</sup> Sector Facilities help support rapid and tangible action in specific sectors without the delays associated with a long preparation period. They aim to provide fast-track support to address problems of a sector or cross-sectorial nature. Emphasis is placed on carrying pre-defined low-cost activities, characterized by: (a) relatively high impact, (b) high sector relevance and urgency (c) less complex preparation; and (d) rapid execution. Concrete and sector-specific issues are addressed. Sector facilities have been established in health, education, trade, institutional development, disaster prevention and transnational infrastructure.

---

<sup>11</sup> The IDB finances technical cooperation (TC) programs for institutional strengthening, knowledge transfer, and the preparation of studies, including diagnostic, pre-investment and sector studies that support project design and preparation. TC programs can be aimed at projects specific to a single country or for trade, integration or regional initiatives. They do not finance equipment or civil works and are used primarily for the purchase of services. Technical cooperation with Reimbursable Resources consists of an IDB-financed loan to carry out technical cooperation activities.

<sup>12</sup> Innovation Loans (IL) are flexible instrument through which pilot interventions or activities can be financed in preparation for larger-scale programs. An IL can help boost institutional capacity, particularly in situations where experimental or pilot programs are necessary to gain experience before moving ahead on complex issues. It could be used to attain stakeholder consensus on contentious topics or to overcome specific constraints before committing a great deal of resources in a full-fledged operation. An IL can be used to demonstrate the potential of taking a specific approach in an area, sector or group of interrelated sectors or to set preparatory institution building in motion. The maximum loan amount for ILs is \$10 million with an execution period of up to 30 months, in order to enable rapid turnover from learning to applied action.

<sup>13</sup> 2008 estimate.

<sup>14</sup> In 2008, general elections were held and a new Government was formed: the Democratic Labour Party won 20 of the 30 parliamentary seats, and replaced the Barbados Labour Party, which had led Government since 1994.

<sup>15</sup> The Worldwide Governance Index reports aggregate and individual governance indicators for 212 countries and territories over the period 1996-2007 in the following dimensions: voice and accountability, political stability and absence of violence, Government effectiveness, regulatory quality, rule of law, and control of corruption. The ratings are normalized on a 0-1 scale, with 1 being the best. Country percentile rankings are reported in Table 1.1.

<sup>16</sup> HDI is a composite index measuring average achievement in three basic dimensions of human development: a long and healthy life, knowledge, and a decent standard of living. The ratings are normalized on a 0-1 scale, with 1 being the best. Based upon the composite score, countries are ranked relative to each other. The 2009 HDI included 179 countries. Of these, Barbados ranked 37, and was the only borrowing country to be classified as a “very high human development” country. Chile (44), Argentina (49) and Uruguay (50) rounded out the top 50 (see Table 1.1).

<sup>17</sup> (6.9% of GDP on average between 2002-2005)

<sup>18</sup> According to Andrew S. Downes, a leading national labor economist, there has been a significant increase in the human capital base of the country; however, there are “shortages and skill deficiencies that can reduce the effectiveness of the labour market in promoting international competitiveness through labour productivity growth. Work-permit data indicate that the main occupational categories granted such permits in recent years have been senior officials and managers, professionals, technicians and associate professionals. Labour shortages have, therefore, been in the skilled category, although there have been periodic shortages in the semi-skilled category (for example, masons and carpenters).” Rojas-Suarez L, Thomas D, eds. (2006): *Barbados: Meeting the Challenge of Competitiveness in the 21<sup>st</sup> Century*. Inter-American Development Bank. Washington, D.C. , (Page 101)

<sup>19</sup> Whilst national efforts have considerably reduced the morbidity and mortality rates among the population infected with HIV/AIDS, the country continues to grapple with new infections, particularly among females aged 15-24. Between 1998 and 2008, the rate of HIV/AIDS prevalence among adults ages 15-49 declined from 2.89% to 1.2%. (UNDP, Human Development Indicators 2000 and 2009).

---

<sup>20</sup> More specifically, of the 133 countries included in the 2009 World Competitiveness Report, Barbados ranked 9th in terms of its highly educated workforce, 20<sup>th</sup> for the stability of its public institutions and 21<sup>st</sup> in economic infrastructure. Its performance was weak, however, in terms of the size of its domestic and foreign markets (#127 and #121, respectively), and macroeconomic stance (#115).

<sup>21</sup> According to the Central Bank of Barbados, the country experienced negative growth of -0.2% in 2008, and -4.8% in 2009p.

<sup>22</sup> Besides representing a relatively small share of total exports, external sales of goods in Barbados' are concentrated in a relatively small number of product categories, especially food chemicals, rum and other beverage, and electric components. Nonetheless, exports of goods appear to have become relatively more diversified in recent years, with other products acquiring weight in total exports.

<sup>23</sup> By contrast, consumer and intermediate goods constituted some 80% of total imports during the same period, with food and beverages growing from 37% in 2005 to 45% in 2008. Capital goods represent only 20% of imports, as would be expected in the face of the small weight of heavier manufacturing in the country. From a dynamic perspective, the most noteworthy shift observed in recent years concerns the increase in the relative importance of goods exports, despite of the good performance of travel credits.

<sup>24</sup> As reported by the Central Bank of Barbados.

<sup>25</sup> The major elements of CSME are: (i) **Free movement of goods and services**: through measures such as eliminating all barriers to intra-regional movement and harmonizing standards to ensure acceptability of goods and services traded; (ii) **Right of Establishment**: to permit the establishment of CARICOM owned businesses in any Member State without restrictions; (iii) **A Common External Tariff**: a rate of duty applied by all Members of the Market to a product imported from a country which is not a member of the market; (iv) **Free circulation**: free movement of goods imported from extra regional sources which would require collection of taxes at first point of entry into the Region and the provision for sharing of collected customs revenue; (v) **Free movement of Capital**: through measures such as eliminating foreign exchange controls, convertibility of currencies (or a common currency) and integrated capital market, such as a regional stock exchange; (vi) **A Common trade policy**: agreement among the members on matters related to internal and international trade and a coordinated external trade policy negotiated on a joint basis; (vii) **Free movement of labor**: through measures such as removing all obstacles to intra-regional movement of skills, labor and travel, harmonizing social services (education, health, etc.), providing for the transfer of social security benefits and establishing common standards and measures for accreditation and equivalency.

<sup>26</sup> Between 2004-07, travel receipts grew by over 6% per year on average, and the number of visitors grew by 2% over the same period

<sup>27</sup> "A total of 545 offshore banks with US\$32.0b in assets [roughly nine times GDP] , 219 exempt insurance companies, 4,635 international business companies, and ten mutual fund companies were in operation at the end of 2007." (EIU, 2008).

<sup>28</sup> This recommendation was included in the *Report of the Advisory Panel on Canada's System of International Taxation, December 2008*,

<sup>29</sup> John Mwansa, acting chief engineer of the Barbados Water Authority (BWA), as reported in IDB America , *Barbados acts to prevent water crisis*, Drosdoff D., May 2004.

<sup>30</sup> As reported in The Barbados Advocate Newspaper. August 3, 2006.  
<http://barbadostravel.squarespace.com>.



---

<sup>31</sup> For additional details, refer to the paper by Dr. Andrew Downes in the following publication: Rojas-Suarez L, **Thomas D**, eds. (2006): ***Barbados: Meeting the Challenge of Competitiveness in the 21<sup>st</sup> Century***. Inter-American Development Bank. Washington, D.C.

<sup>32</sup> The tourism relief fund includes increased marketing efforts, and a package of public loans, grants, and guarantees for the renovation of tourism-related facilities;

<sup>33</sup> Under the proposed scheme, employers could defer their contribution to the National Insurance Scheme (NIS) for one year.

<sup>34</sup> The referenced studies can be found in the following publication: Rojas-Suarez L, **Thomas D**, eds. (2006): ***Barbados: Meeting the Challenge of Competitiveness in the 21<sup>st</sup> Century***. Inter-American Development Bank. Washington, D.C.

<sup>35</sup> The CS identifies Government's short to medium-term priorities as: "(i) the BoP deterioration and associated international reserve loss, and the consequent need to raise competitiveness; (ii) the extensive changes in international economic conditions following the WTO changes and impending changes in trade relations with the EU; (iii) the need to achieve full readiness to implement the CSME; and (iv) the need to prepare to take advantage of the showcase opportunities of hosting the final of the World Cup Cricket in 2007." (2.29) On the basis of these considerations, the CPE reports that "Government is proposing a package of measures, supported by spending allocations, to strengthen service orientation and performance, foster tourism growth and international business and financial services, reduce taxes and modernize tax administration and strengthen export promotion. In the social sector, the Government is committed to enhanced support for youth programs and assistance in the integration of persons with disabilities." (2.30)

<sup>36</sup> According to Andrew S. Downes, a leading national labor economist, there has been a significant increase in the human capital base of the country; however, there are "shortages and skill deficiencies that can reduce the effectiveness of the labour market in promoting international competitiveness through labour productivity growth. Work-permit data indicate that the main occupational categories granted such permits in recent years have been senior officials and managers, professionals, technicians and associate professionals. Labour shortages have, therefore, been in the skilled category, although there have been periodic shortages in the semi-skilled category (for example, masons and carpenters)." Rojas-Suarez L, **Thomas D**, eds. (2006): ***Barbados: Meeting the Challenge of Competitiveness in the 21<sup>st</sup> Century***. Inter-American Development Bank. Washington, D.C. , (Page 101)

<sup>37</sup> As of December 31, 2009, the following loans were not yet effective: BA-L1015 Water and Sanitation Systems Upgrade, BA-L1008 Agricultural Health and Food Control Programme, BA-L1007 Barbados Competitiveness Program.

<sup>38</sup> It should be noted that the portfolio includes the Education Sector Enhancement Program (ESEP), which comprises nearly half of the portfolio volume (US\$85.0m), and which at the time that it was approved (1998), represented the single largest loan in per capita terms, in the Bank's history.

<sup>39</sup> For operational and analytical purposes, the World Bank classifies economies by gross national income (GNI) per capita (formerly referred to as gross national product, or GNP). In 2008, based on GNI per capita (calculated using the World Bank Atlas method), the groups are: [low income](#), \$975 or less; [lower middle income](#), \$976 - \$3,855; [upper middle income](#), \$3,856 - \$11,905; and [high income](#), \$11,906 or more. According to this classification, The Bahamas, Barbados, and Trinidad & Tobago are considered high income. Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Jamaica, Mexico, Panama, Peru, Suriname, Uruguay, and Venezuela are classified as upper-middle income countries.

---

<sup>40</sup> In the analysis of loan operations and results, PROPEFs have been omitted.

<sup>41</sup> Watson N, Quinn J, Cook R (2005): Evaluation of Barbados Education Sector Enhancement Programme (ESEP): Final Report. Ontario Institute for Studies in Education, University of Toronto.

<sup>42</sup> Evaluability refers to the ability of an intervention to explain its logic and define its anticipated results in measurable terms.

<sup>43</sup> The scope of this contribution may come in many forms from focused analytical work, to greater stakeholder consultation, increased supervision, additional technical cooperation, and a more active support for policy dialogue.

<sup>44</sup> For example, the CS did not demonstrate how the Bank would use financial management software, auditing functions, country-level investment prioritization systems, budgetary systems, or country monitoring and evaluation systems.