

Country Program Evaluation

# Barbados

2010-2013



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This Country Program Evaluation (CPE) is the third independent evaluation of the Inter-American Development Bank's (IDB's) Country Program with Barbados. The first CPE (RE-313) covered 1989-2004, when Barbados' brand as a tourism destination was driving the country's economy; and the second (RE-369) covered 2005-2009, a period characterized by an increasing fuel import bill. This CPE spans December 2009 to October 2013, a period marked by a substantial increase in central government debt and decreasing tourism receipts. Over this time the Bank favored the use of fast-disbursing instruments, including in its portfolio two programmatic policy-based loans in the energy sector.

According to the Bank's Protocol for CPEs (RE-348-3), the main goal of these evaluations is "to provide information on Bank performance at the country level that is credible and useful, and that enables the incorporation of lessons and recommendations that can be used to improve the development effectiveness of the Bank's overall strategy and program of country assistance." This CPE analyzes the Bank's relevance, efficiency, effectiveness, and sustainability in the context of Barbados' specific development challenges, such as economic and climate vulnerability arising from its small size, economic concentration, and location. It also includes a thorough analysis of the implementation challenges delaying the portfolio's execution. Interviews with Bank staff at headquarters and in the country office, government officials, executing unit staff, civil society, and the donor community served as input to this evaluation. Country Strategies, Country Programming Documents, loan proposals, monitoring and completion reports, project evaluations, and other relevant material produced by the Bank and executing agencies were also analyzed.

The IDB Board of Executive Directors recently requested that the Office of Oversight and Evaluation (OVE) review the content and process of CPEs to make them as informative and useful as possible. In response, OVE proposed to review the CPEs being presented in 2013: those for Dominican Republic, Paraguay, and Barbados. Because of that review, this evaluation has been strengthened in four important dimensions: (i) it more closely links the discussion of the country context with the evaluation of the relevance of the country program; (ii) it covers the entire Bank program during the period under analysis; (iii) it focuses on cross-cutting issues related to implementation and effectiveness; and (iv) it takes a more prospective approach to support the formulation of the next Country Strategy and Country Programming Documents.

The evaluation is structured in four chapters. Chapter 1 analyzes the economic developments of the Barbadian economy over 2009-2013 and considers the medium-term prospects. Chapter 2 analyzes the strategic and financial relevance of the Bank's program and covers the major implementation challenges the country and the Bank have faced in recent years. Chapter 3 discusses the results achieved in the four strategic areas identified in the 2009-2013 Country Strategy and also in the public sector modernization and private sector development areas from the 2005-2009 Country Strategy. Chapter 4 presents concluding remarks and recommendations. The annexes provide the figures that support the analysis in Chapters 1, 2, and 3.

**Country Program Evaluation:**  
**Barbados**  
**2010-2013**

OFFICE OF EVALUATION AND OVERSIGHT, OVE



**Inter-American Development Bank**  
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Office of Evaluation and Oversight  
1350 New York Avenue, N.W.  
Washington, D.C. 20577  
[www.iadb.org/evaluation](http://www.iadb.org/evaluation)

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## ABBREVIATIONS

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## ABBREVIATIONS

BGDS	Barbados Growth and Development Strategy
CARICOM	Caribbean Community
CARTAC	Caribbean Regional Technical Assistance Center
CDB	Caribbean Development Bank
CFU	Central fiduciary unit
CPD	Country Programming Document
CPE	Country Program Evaluation
CS	Country Strategy
DfID	UK Department for International Development
DFATD	Canadian Department of Foreign Affairs, Trade and Development (formerly known as CIDA)
EE	Energy efficiency
EU	European Union
FSC	Financial Services Commission
GDP	Gross domestic product
IDB	Inter-American Development Bank
IFI	International financial institution
IMF	International Monetary Fund
MIF	Multilateral Investment Fund
MTDS	Medium-Term Development Strategy
NIS	National Insurance Scheme
OECS	Organization of Eastern Caribbean States
OVE	Office of Evaluation and Oversight
PBL	Policy-based loan
PEU	Project executing unit
PSM	Public sector modernization
RE	Renewable energy
SEFB	Sustainable Energy Framework in Barbados
TC	Technical cooperation
UNDP	United Nations Development Programme
VAT	Value-added tax
VPC	Vice Presidency for Countries
WDI	World Development Indicators

This evaluation was led by Leslie Stone, under the general direction of Cheryl W. Gray. The team included Michelle Fryer, Hector Valdes Conroy, Lynn Scholl, Ricardo Marto, Patricia Sadeghi, and Juan Carlos Di Tata. OVE thanks the Government of Barbados, in particular the Public Investment Unit of the Ministry of Finance and Economic Affairs, as well as IDB managers, staff, and country counterparts for providing input through interviews, data and constructive cooperation during the preparation of this evaluation.



Economic activity is focused largely on two sectors: tourism, with an overall direct and indirect contribution estimated at about 39% of GDP, and the international business and financial services sector, which contributes approximately 20% of GDP.  
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# Executive Summary

**Context.** Barbados is a small island state of 278,000 inhabitants with a high GDP per capita (US\$25,000 in purchasing power parity) and human development index (ranks 38th out of 186 countries in 2013) that nonetheless faces significant development challenges. The country is highly vulnerable to external shocks (economic and environmental), government institutions are hindered by lengthy bureaucratic processes, and the economy faces important economic challenges (slow growth, large fiscal deficit, high government debt, and declining competitiveness). Economic activity is focused largely on two sectors: tourism, with an overall direct and indirect contribution estimated at about 39% of GDP (market sources are concentrated in a few countries –UK, US, and Canada), and the international business and financial services sector, which contributes approximately 20% of GDP. The country's international reserves position has deteriorated in recent months because of a widening external current account deficit and a sharp drop in net capital inflows, including foreign direct investment.

The international financial crisis that erupted in 2008 adversely affected the Barbados economy in 2009, and its effects are still lingering. The crisis had a strong impact on the country's main economic activities, especially tourism, financial services, real estate, and construction. Real GDP contracted by 4.1% in 2009, and subsequent years have been characterized by continued economic stagnation and large fiscal imbalances. The poverty rate (19% in 2010, with 9% indigent poor) and the unemployment rate (more than 11% in the first half of 2013) have risen. Following the onset of the crisis, the government implemented several initiatives to stimulate employment and minimize the impact of the crisis on the most vulnerable groups. Subsequent efforts to address the growing fiscal imbalances through tax increases (VAT) and expenditure restraint did not result in the



Climate change poses several threats: coastal erosion, sedimentation, coral bleaching, and general degradation of the coastal ecosystem.

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expected revenues and hence the envisaged reduction in the fiscal deficit. As a result, the total gross central government debt (including debt held by the National Insurance Scheme) rose from 71.7% of GDP in 2008 to 127% at end-September 2013. In August 2013 the government released the medium-term Growth and Development Strategy 2013-2020, which informed the annual financial statement and budgetary proposal. The government also announced that it would embark on a 19-month fiscal adjustment program that includes some revenue measures but focuses mainly on reducing expenditures, particularly transfers, subsidies and public sector lay-offs. Looking ahead, aside from the importance of a recovery in the country's major external markets, there is an urgent need for the country to strengthen its fiscal position and tighten monetary conditions, diversify its exports and partners, and enhance its productivity and competitiveness.

**Bank's relevance.** The Country Strategy (CS) 2009-2013 focused on four key areas that were highly relevant and directly linked to the country's development strategy: (i) coastal infrastructure and climate change adaptation, (ii) water and sanitation, (iii) energy, and (iv) education. Dialogue between the government and the Bank to prioritize key sectors of future work took place. However, the final selection of strategic areas was largely demand-driven, and as a result the Bank prepared technical notes for only the four sectors requested by the government.

The current guidelines for preparing CSs and Country Program Documents (CPDs) establish that these documents should focus on forward-looking actions; therefore, the 2009-2013 strategy did not pay sufficient attention to monitoring and evaluating the "inherited" active portfolio, an issue that is especially pertinent for countries with slow execution. In fact, more than half of the portfolio that was active in Barbados during the CS period was inherited from the previous strategy, and focused on topics related to public sector modernization (PSM). Thus, although PSM was not included in the CS and CPD, it remained highly relevant during the strategy period, and the country office made considerable efforts to expedite implementation in this area. In addition, while the CS recognized in its diagnosis that the economic situation was difficult, it did not contemplate new support on fiscal reform until 2012, when the Bank engaged in policy dialogue in this area to prepare a fiscal consolidation policy-based loan (PBL). In this regard, the separation between strategy and programming brought increased flexibility, opening the door to initiate a new dialogue on critical issues including the fiscal PBL.

The Bank was financially relevant in Barbados for two reasons. First, the Bank is a major lender to the country, accounting for 69% of debt to international financial institutions (IFIs), 18% of central government external debt, and 4.8% of total central government debt at end-2012. Second, in response to the country's weakened economic performance, the Bank increased its financial support by increasing the financial envelope and extending fast-disbursing PBLs. The Bank's financial envelope for December 2009-October 2013 was estimated at US\$200 million. However, actual approvals of sovereign-guaranteed loans during the strategy period totaled US\$242 million, reflecting a threefold increase over the previous strategy period. Disbursements to Barbados (3-year average in 2012) were equivalent to 1.1% of GDP and 3.2% of total government expenditure. Net cash flows, which were negative during 2002-2008, became positive between 2009 and 2011. The Caribbean Development Bank is the only other significant source of IFI lending.

**Program execution.** The Bank's portfolio in Barbados has been persistently characterized by slow execution, delaying or preventing the achievement of results. While the country office and the government have taken several measures to address this situation, disbursements have remained sluggish. For instance, on average a project in Barbados takes almost four times as long as projects in the rest of the Bank to disburse 25% of the total loan amount approved. Only two investment loans were completed during the period. Of the 10 loans that remained active, nine have yet to achieve the 25% disbursement level, and only one has reached 50%.

Management's detailed diagnosis of the main issues related to slow implementation found that it was due both to structural and institutional constraints on the country's side and to factors within the Bank's control. On the country's side, the main challenges relate to procurement, the long time required to make executive decisions and approve legislation, limited human resource availability and high personnel turnover, weak project management skills, and the complex approval of land acquisition and construction permits for infrastructure projects. On the Bank's side, unsatisfactory project performance was due to poor project design (overly complex components, unrealistic deadlines, complicated procurements) and to excessive requirements for information, documentation, and approvals/no objections.

The country office, in partnership with the government, prepared an Action Plan to help improve implementation. The plan focuses on (i) investment portfolio streamlining, (ii) project design optimization, (iii) project execution improvement, and (iv) institutional strengthening of the government. As a result, the Bank canceled significant portions of underperforming loans (an action not seen in the past), significantly increased disbursements of investment loans in 2013 relative to the prior 3-year period and appointed a procurement specialist to be based in the country office (June 2013), among other actions. While the cancellation puts at risk the attainment of development objectives for the three projects, it could be argued that, in any



The crisis had a strong impact on the country's main economic activities, especially tourism, financial services, real estate, and construction.

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case, the loans would not have achieved their goals because of their significant and repeated implementation problems. The measures included in the Action Plan, if well implemented, should help improve project design and execution.

Private sector operations may offer good potential for the Bank to influence development in Barbados. These operations do not face the procurement bottlenecks that sovereign-guaranteed operations do, and they may have a relatively large economic impact, given the scale of the Barbadian economy. Nonetheless, the Bank has not fully exploited this avenue. The CS did not present a coherent strategy to work directly with Barbados' private sector—for instance, only three mini-operations of the Multilateral Investment Fund (MIF) were approved under the review period. Ultimately, one Structured and Corporate Finance loan was approved and has yet to be signed. The Country Office of Barbados is the hub for most regional Caribbean operations: it is involved in 51 operations and has the main disbursement responsibility for 27 of them. These projects address issues related to exploiting economies of scale, harmonizing regulations and normalizing standards, building climate change resilience, and exchanging best practices. The country office has substantial additional work because of the large portfolio of regional operations it supervises—something the CS and CPDs do not recognize. In addition to the “traditional” regional portfolio, in 2010 the Bank partnered with the Caribbean Development Bank, Canadian Department of Foreign Affairs, Trade and Development, and UK Department for International Development to establish Compete Caribbean, a program to support private sector development and competitiveness in 15 Caribbean countries, including Barbados.

**Results.** In general, the operations under review have not yet executed sufficiently to produce tangible outcomes. Because of slow and weak implementation, Barbados' portfolio achieved limited results, making it difficult to assess the achievement of the current CS goals—except in the energy sector, where PBLs were used strategically to advance policies and legislation to promote energy efficiency and renewable energy. For the three projects approved under the 2005-2009 CS that are scheduled for cancellation, significant proportions of the approved amounts remain undisbursed.

Moreover, implementation delays have implied substantial financial costs and missed development opportunities for the country. Therefore, although the Bank has worked in areas that are relevant, it urgently needs to find ways to improve execution.

**Conclusions.** During 2009-2013, Barbados' weakened economic situation deteriorated further because of the global financial crisis and its effects on tourism and other related sectors. As a result, the Bank was financially relevant, especially through its use of fast-disbursing instruments. However, the Bank's development effectiveness has been hindered by implementation delays. Although the Bank has worked in sectors that are relevant, it urgently needs to find ways to improve the execution of both new and ongoing operations. In this regard, the country office is implementing an Action Plan to help address execution issues, but it is important to take deliberate action and monitor follow-up. Looking forward, the Bank could increase its relevance and effectiveness by continuing dialogue with the government on promoting reforms to address the country's large fiscal imbalances—a major macroeconomic concern—and by strengthening its support for the private sector.

**Recommendations.** In light of these findings, OVE recommends the following:

1. Continue to work with the Government of Barbados to find ways to improve project execution:
  - Fully implement the Action Plan, including adhering to a timeline for implementation and a results framework for monitoring and evaluation.
  - Establish criteria to gauge the complexity of project design.
  - Invest in further analysis of constraints to procurement and identify ways to address them. Continue to offer assistance to strengthen the Solicitor General's Chambers.
  - Explore with the government the feasibility of establishing a central fiduciary unit to manage multiple projects.
2. Strengthen the relevance and development effectiveness of the Bank's program in Barbados through a greater engagement with the private sector—in particular, making better use of MIF operations. Better factor into the Bank's private sector strategy the constraints of small open economies. Ensure that private sector operations have demonstrated financial additionality beyond what local institutions can offer, support the development objectives of the CS, and confirm that all risks are carefully assessed and mitigated.
3. *Recommendation for VPC in general:* Revise the CS and CPD guidelines to reflect active areas of intervention in the portfolio, including recognition of the inherited and regional portfolios. This means preparing technical sector notes for the main areas of the inherited portfolio as an input to ongoing policy dialogue. These operations should also be included in the CS and CPD results frameworks.



The government's efforts to stimulate the economy have had limited success and have also contributed to large current account and fiscal deficits, whose financing has resulted in a substantial accumulation of public debt.

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# 1 Country Context and Recent Economic Developments

Barbados is an upper-middle-income country with a high level of human development. However, it is also a small island developing state whose economy depends heavily on one sector (tourism), and thus it is highly vulnerable to external economic and environmental shocks.<sup>1</sup> In addition, the country's competitiveness has been adversely affected in recent years because of higher accumulated inflation than in its main trading partners, in the context of a fixed exchange rate regime. Slow (albeit stable) institutions, high energy costs, and relatively expensive hospitality services have also had an adverse effect on competitiveness. Since 2001 the economy has been strongly affected by two external financial crises. The government's efforts to stimulate the economy have had limited success and have also contributed to large current account and fiscal deficits, whose financing has resulted in a substantial accumulation of public debt. In addition, international reserves, which support the fixed exchange rate, have recently experienced a significant decline. (See Table A2.1 for a summary of selected macroeconomic indicators, and Figure A2.1 for a map of Barbados and the region.)

## A. GENERAL DESCRIPTION OF BARBADOS

In terms of per capita income, Barbados is the second-wealthiest borrowing member country of the Inter-American Development Bank (IDB, or Bank) and the one with the highest human development index. Barbados' GDP per capita (adjusted

for purchasing power parity) was above US\$25,000 in 2012 (see Figures A2.2 and A2.3), the second-highest in the Latin America and Caribbean region after The Bahamas.<sup>2</sup> Because the country has made significant investments in the social sectors, it ranks 38th out of 186 nations in the 2013 United Nations Development Programme's Human Development Index, and it compares favorably on a wide range of social and structural competitiveness indicators, including life expectancy<sup>3</sup> and access to drinking water, electricity, and education. However, the country still faces significant development challenges.

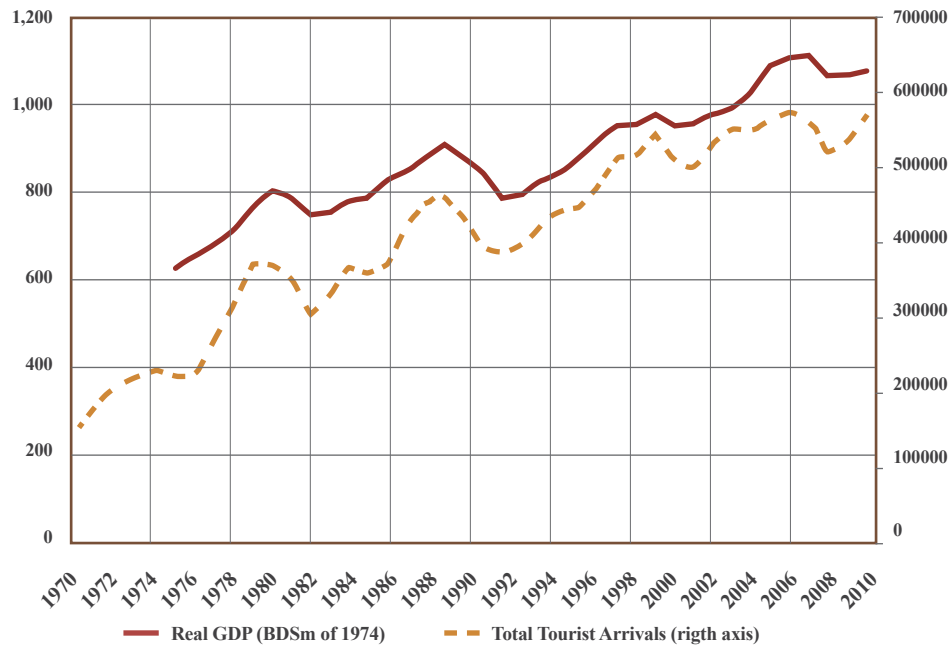
Barbados has near-universal access to primary and secondary education, and it is working to improve education quality and relevance. Barbados has very high enrollment rates at the primary, secondary, and tertiary levels (95%, 88.9%, and 61.8%, respectively),<sup>4</sup> but there is a low degree of certification of formal secondary education among youth transitioning from school to the labor market.<sup>5</sup> Unemployment among youth stands at 30.4%, well above the country's overall unemployment rate of 11.6% in 2012.

Poverty and income inequality are moderate relative to the rest of Latin America and the Caribbean, yet they remain a source of concern. Between 1997 and 2010, partly as a result of the international financial crisis, the poverty rate climbed from 13.9% to 19.3%, while the Gini index went from 0.39 to 0.47 (Figure A2.4).<sup>6</sup> These increases have taken place in the context of low institutional capacity to tackle poverty; reports have pointed to a number of institutional problems, including deficiencies in planning, coordination, and resource allocation.

Tourism is Barbados' main economic activity. The tourism sector began developing in the 1970s—when Barbados started to move away from its reliance on the sugar industry—and is currently estimated to contribute approximately 12% of the country's GDP (39% if indirect contributions are also considered).<sup>7</sup> Similarly, the sector employs about 12% of the labor force (38% considering indirect contributions). As a result, Barbados' real GDP is highly correlated with overnight tourist arrivals (Figures 1, A2.5, and A2.6).

The offshore finance and international businesses services sector is another important contributor to the economy. Although this sector lags behind other offshore centers in the Caribbean, it accounts for about two-thirds of Barbados' corporate tax revenue and employs more than 2% of the labor force, mostly in high-skilled jobs. More than 3,990 international business entities were registered in Barbados at end-September 2013. Canada and the United States, with which Barbados has double taxation avoidance treaties, are the most important source markets. Altogether, services account for approximately 80% of Barbados' GDP, with government activities (17%) and domestic financial services (20%) accounting for a significant and growing share of GDP. Other contributors are construction (7%), agriculture (4%), and manufacturing (4%).<sup>8</sup>





**FIGURE I.**  
**Real GDP and overnight tourist arrivals**

*Note:* BD\$m of 1974 refers to million of Barbadian dollars at 1974 prices.  
*Source:* OVE, with data from the Central Bank of Barbados and the Ministry of Tourism.

Barbados’ structural competitiveness indicators point in general to a favorable business environment, but price competitiveness has been adversely affected in recent years. Barbados ranked 44th among 144 countries in the 2012-13 World Economic Forum’s Global Competitiveness Report because of its institutional strength, good access to education, well-developed infrastructure, and technological readiness. However, the country has ample room to enhance its structural competitiveness by (i) improving the regulations concerning foreign ownership of investments, land access, and the general ease and cost of setting up businesses; and (ii) increasing the efficiency of government services to boost productivity, reducing the bureaucratic burden on the private sector, and strengthening the skills of the workforce.<sup>9</sup> In 2013 Barbados ranked 91 in the Ease of Doing Business index, below nine other IDB borrowing member countries, a position that contrasts with the country’s relative position in terms of per capita income and human development. In addition, price competitiveness has been eroded in recent years as higher inflation than in the country’s main trading partners has appreciated the Barbados dollar in real effective terms.<sup>10</sup> Moreover, high energy costs, relatively high ticket taxes and airport fees, and expensive accommodation rates have driven up travelers’ overall cost to stay in Barbados. As in other countries, limited access to finance by small and medium-size businesses has also been identified as a factor that has an adverse impact on competitiveness. Recommendations to address this matter have been included in Barbados medium-term Growth and Development Strategy.

Barbados benefits from stable and predictable political institutions. Since the early 1990s a tripartite partnership of the government, businesses, and trade unions has provided a framework for consensus-building on national policies and has permitted the country to address its economic challenges with broad social support.<sup>11</sup>



The international financial crisis hit the tourism industry hard and hotels continue to recover.  
© Angie Torres, 2011

Nonetheless, some government institutions are slow and understaffed. A case in point—directly affecting the execution of Bank projects—is the Solicitor General’s Chambers (in charge of reviewing and approving all government contracts for the procurement of goods and services), which has fewer than 30 statutory personnel, of whom fewer than half occupy senior positions.<sup>12</sup>

With a population of approximately 278,000, Barbados has several of the structural characteristics and development challenges of small states. Its economic structure is highly concentrated. The tourism, financial, and government sectors together account directly for more than 50% of GDP and employ over 79% of the labor force.<sup>13</sup> The domestic banking sector consists of six commercial banks, three of which hold about 70% of the industry’s total assets. The Barbadian economy is also commercially very open, with exports (the majority of which are touristic services) and imports adding up to more than 100% of GDP (Figures A2.10 and A2.11). Moreover, the country has limited human resources capacity in some of the main disciplines required to effectively implement development projects. Although educational levels are relatively high, the high rate of emigration of skilled workers<sup>14</sup> may interact with economic concentration in a mutually reinforcing way and result in a limited variety of labor skills.<sup>15</sup>

A particularly relevant small-state characteristic of Barbados is its economic volatility. The country’s sectoral concentration and trade openness expose its economy to large fluctuations from external shocks—especially those originating from developments in the US, the UK, and Canada, three market sources that account for about 70% of tourism receipts (Figure 2 and A2.12). As a result, Barbados’ rate of growth exhibits substantially more long-run volatility (1.81) than the world’s median (1.02).<sup>16</sup>

Barbados has additional sources of vulnerability, including climate change and water scarcity. Climate change poses several threats: coastal erosion, sedimentation, coral bleaching, and general degradation of the coastal ecosystem. These phenomena could result in several adverse effects on the island’s natural resources and negative consequences for the tourist, fisheries, and related industries. Barbados is among the world’s 15 most water-scarce nations.<sup>17</sup> Because of the island’s geological structure and rainfall patterns, its total available supply of water is less than 390m<sup>3</sup> per capita—well below the international standard of 1,000 m<sup>3</sup> per capita, and considered a condition of “absolute water scarcity”.<sup>18</sup>

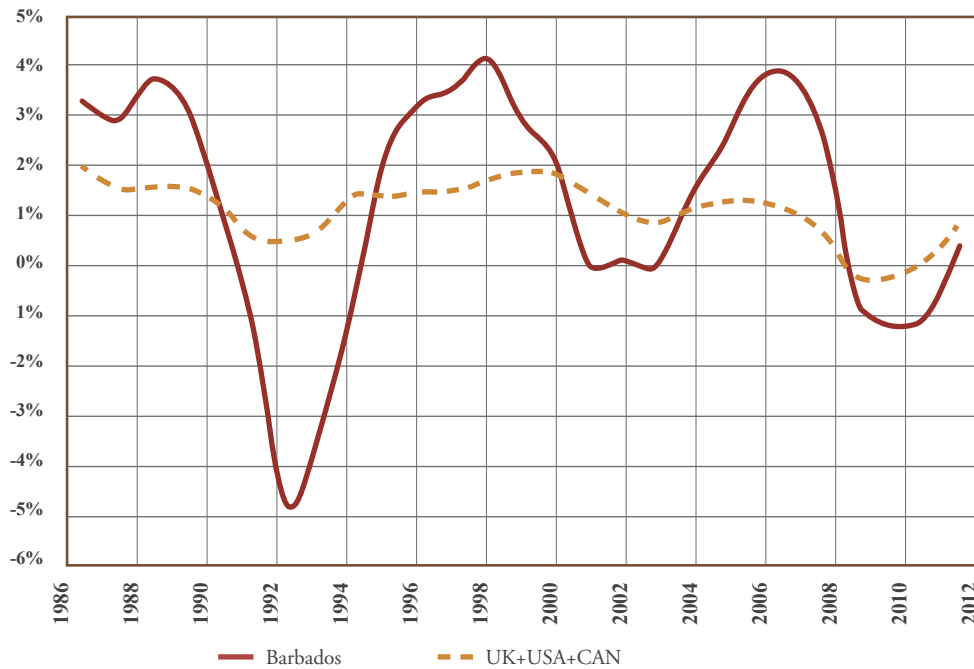


FIGURE 2.

### Influence of economic growth in the UK, USA, and Canada on Barbados' growth

This graph shows how the economic performance of Barbados' three main market sources for tourism affects the economy—not only is there a high correlation, but also Barbados' fluctuations are magnified, especially downward.

*Note:* The graph presents 3-year moving averages of real GDP growth rates. "UK+USA+CAN" is a weighted average of the UK's, USA's, and Canada's real GDPs, with the weights determined as the average of these countries' contribution to total visitors to Barbados between 1980 and 2010. The weights are 0.41, 0.4, and 0.19, respectively.

*Source:* OVE, with data from the Central Bank of Barbados, Barbados' Ministry of Tourism, and WDI.

Another important source of vulnerability for Barbados is its heavy reliance on imported fossil fuel. Barbados imports 92% of the fossil fuels it consumes. Fuel costs are on average four times those in North America, and Barbadian firms cite lack of access to affordable and reliable energy as a main constraint to doing business.<sup>19</sup> Fuel is Barbados' main import—rising from 9% of the country's import bill in 2000 to 23% in 2012—and represents a major drain on foreign reserves (Figure A2.13).<sup>20</sup>

## B. RECENT ECONOMIC DEVELOPMENTS

Following a slight decline in economic activity attributable to the 2001 US recession, real GDP growth averaged 2.6% a year in 2002-2007. In 2001, and again in 2009, the Barbadian economy was hit by external crises that negatively affected the external current account balance, the fiscal balance, and the public debt levels. In late 2001 the government launched a "National Emergency Economic and Financial Programme" of public investment, which helped revive economic activity but added stress to the public finances. The central government debt rose from 54% of GDP in 2001 to 67% in 2007. Because of the slower activity in tourism and the government's stimulus to the economy, the current account deficit widened from 5.8% of GDP to 10.7% between 2001 and 2005, before returning to 5.4% in 2007.<sup>21</sup>

The period covered by the 2009-2013 Country Strategy (CS) was dominated by the international financial crisis that erupted in 2008 and by its negative effects on the economy. The crisis had a strong adverse effect on the country's main economic activities, especially tourism, financial services, and real estate. The number of



Today, Barbados is acknowledged as having one of the most integrated coastal zone management programs in the Caribbean, and it has been called upon to provide technical assistance to other countries that consider its model a best practice.

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overnight visitors fell by 8.7% in 2009, and tourism activity weakened further in 2012. Because of the weak outlook for tourism and foreign direct investment in high-end properties, activity in the construction sector dropped by a cumulative 24% between 2008 and 2012. Real GDP contracted by 4.1% in 2009, and grew a mere cumulative 1.1% in 2010-2012 (Figures A2.14, A2.15, A2.16, and A2.17).<sup>22</sup>

Following the onset of the global crisis, the government implemented several initiatives that, together with a weakened revenue performance, contributed to a significant deterioration in the fiscal position. Two important measures were

adopted to encourage firms to maintain employment and minimize the impact on the most vulnerable groups: the creation of a Tourism Investment Relief Fund and an employment stabilization scheme. Despite these measures, unemployment increased from 7.4% in 2007 to 11.6% in 2012.<sup>23</sup> At the same time, the budget deficit widened from 4.9% of GDP in FY08 to 8% in FY12 (Figures A2.19, A2.20, and A2.21). Government capital expenditures decreased by more than half between FY07 and FY12 (from 2.6% of GDP to 1.1%), delaying implementation of major public works.

Reflecting the large fiscal imbalances, the government's debt has increased sharply in recent years. Total central government debt (including government debt held by the National Insurance Scheme, or NIS) rose from 71.7% of GDP at end-2008 to 127.0% at end-September 2013 (Figures A2.22 and A2.23). After netting out the debt held by the NIS, government debt is estimated at 93.7% of GDP.<sup>24</sup> In Barbados, unlike other countries in the Region, domestic debt accounts for a large portion of government debt (close to 75.5% at end-2012). The debt with multilateral institutions is equivalent to 23.5% of the external debt; the IDB is the largest multilateral lender, with 16.2% of the government's external debt at end-2012.

The external current account deficit has remained large and, coupled with a recent fall in long-term private capital inflows, has contributed to a significant loss of international reserves. The current account deficit, which averaged 7.9% of GDP over the last decade, was financed mainly through long-term public and private capital inflows. However, private capital inflows have declined significantly since 2009, with foreign direct investment falling sharply in the first nine months of 2013. As a result, gross international reserves dropped from US\$729 million (19.5 weeks of imports) at end-2012 to US\$505 million (13.3 weeks of imports) at end-September 2013 (Figures A2.24, A2.25, and A2.26).<sup>25</sup>

Barbados' credit rating has been repeatedly downgraded. Since July 2012, the country's sovereign rating is considered non-investment grade (speculative rating). Most recently, in November 2013, Standard & Poor's lowered the country's sovereign rating from BB+ to BB- with a negative outlook because of the persistent current account imbalance and high fiscal deficit.

Despite the impact of the financial crisis, the financial system has remained resilient. The onshore financial sector has continued to grow since the onset of the crisis in 2008, although at a slower pace. Commercial banks remain solvent and highly liquid, but their exposure to weak economic activity, particularly in the tourism sector, has significantly increased their nonperforming loans.<sup>26</sup> Non-bank institutions remain stable and well capitalized, but credit quality has also reflected the economic slowdown, with mortgages and personal lending constituting the main areas of credit risk.<sup>27</sup>

### C. PROSPECTS FOR THE MEDIUM TERM

Economic activity is expected to remain weak in 2013 and 2014. Economic activity fell by 0.7% in the first nine months of 2013, with long-stay tourist arrivals down by 6.2%. Inflation declined to 2.1% at end-July 2013 because of lower food and oil prices (Figures A2.27 and A2.28). The average unemployment rate was estimated at 11.1% for the first half of the year. Current trends indicate that real GDP is likely to contract in 2013 and to grow moderately in 2014, as tourism and construction are expected to remain weak during the remainder of 2013 and to experience a moderate recovery in 2014.

In August 2013 the government finalized the Barbados Growth and Development Strategy 2013-2020. The strategy, which drew on extensive consultations with relevant stakeholders (including the private sector and the labor movement), defines the country's development priorities over the next eight years. It contemplates a 19-month program of fiscal adjustment, as well as specific growth initiatives aimed at stabilizing the economy and restoring sustainable growth. To that end, the government envisages a number of measures and programs in tourism, international business and financial services, agriculture, manufacturing, and renewable energy. The construction sector is also expected to benefit from an increase in public and private sector investment.

The government's 19-month fiscal adjustment program aims to reduce the budget deficit to 5.4% of GDP in FY13, 2.8% in FY14, and below 2% by 2020.<sup>28</sup> The program contemplates revenue and expenditure measures, but the main focus is on reducing current expenditures. Over the short run, the government expects the budget deficit to continue to be financed mainly in the domestic financial market through further placements of government securities with commercial banks, credit unions, insurance companies, and the NIS. To that end, short-term yields on Treasury bills (which have declined since April 2013 under a new interest rate policy framework) should be allowed to rise to avoid central bank financing of the government and prevent further losses of international reserves. Regarding external financing, Barbados' non-investment-grade status means that it will be difficult to issue bonds in international financial markets.

The government's fiscal program constitutes a first step toward addressing Barbados' fiscal imbalance, but it needs to be strengthened significantly. In particular, the Bank considers that further action is needed to address tax waivers and incentives and that additional measures are necessary to allow for the planned reduction in current expenditures. In addition, improved implementation and monitoring will be needed to ensure that the required fiscal adjustment is achieved. Current trends suggest that Barbados is not likely to meet the fiscal deficit target for FY13, mainly because revenues are falling short of expectations. Continued fiscal efforts are necessary over the medium term to

put the debt ratio on a downward path, as well as to ensure the sustainability of the peg and avoid pressures on the real exchange rate that could further erode external competitiveness.<sup>29</sup>



Progress in managing the coastal zone has been achieved, in part, through three decades of Bank support. In 1983 the Government of Barbados embarked on a program to improve coastal zone management, safeguard the character of the coastline, and protect marine habitats and significant infrastructure threatened by marine pollution and climate change.

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# 2 The Bank's Program in Barbados

**The Bank's program in Barbados is financially relevant and is aligned with national priorities (Table A2.2). The mix of instruments used –in particular in the energy sector, which combined technical cooperation (TC), policy-based loans (PBLs), and investment loans– is likely to have a positive medium-term impact by reducing the oil import bill, but the short term is still characterized by protracted execution and few development results in the non-energy sectors. (See Table 1 for the loan portfolio, A2.3 for TCs, A2.4 for Multilateral Investment Fund (MIF) operations, A2.5 for regional operations, and A2.6 for Compete Caribbean.)**

## **A. BARBADOS' DEVELOPMENT STRATEGY**

The objectives of the Bank's strategy, while prepared under a previous administration and aligned with the long-term National Strategic Plan 2006-2025, remained relevant to the government's current medium-term development and fiscal strategies. In 2010 the Government of Barbados launched its Medium Term Development Strategy (MTDS) 2010-2014, a strategic planning instrument to guide the country out of the global recession. The MTDS promotes the need to find new sources of growth while maintaining sustainable debt levels. It covers many sectors, from energy and agriculture to tourism and trade, as well as social and environmental issues.<sup>30</sup> The MTDS was complemented by the Medium Term Fiscal Strategy 2010-2014, which sought to address Barbados' fiscal challenges and lay a framework for fiscal sustainability and economic growth. The fiscal strategy was revised in November 2011 to accommodate the greater-than-envisaged effects of the global recession on economic activity. The Growth and Development Strategy, completed in August 2013, defines the country's development priorities over the next eight years.

TABLE I. LOAN PORTFOLIO UNDER REVIEW

Period	Operation Number	Operation Name	Approval Date	Current Operation Status	Current Approved Amount (U\$S)	% Disbursed (10/2013)	Extension (months)	
Active loans as of 12/31/2009	BA-0055	Administration of Justice	8/1/2001	Completed	8,749,947	100%	80	
	BA-L1003	Modernization of Customs, Excise and VAT Areas	11/9/2005	Completed	4,387,024	100%	18	
	BA-L1006	Modernization of the Barbados National Standards System	12/19/2007	Active	5,000,000	22%	24	
	BA-L1009	Modernization of the Barbados Statistical Service	7/28/2008	Active	5,000,000	53%	24	
	BA-L1004	Modernization of the Barbados National Procurement System	12/15/2008	Active	5,000,000	24%	0	
	BA-L1002	Housing and Neighborhood Upgrading Program - Phase I	1/16/2008	Active	30,000,000	16%	8	
	BA-L1017	PEF: Agricultural Health and Food Safety Program Preparation	12/10/2008	Completed	505,084	100%	6	
	<i>Transition Period Between Strategies</i>							
	BA-L1008	Agricultural Health and Food Control Programme	12/2/2009	Active	20,000,000	3%	0	
	BA-L1015	Water and Sanitation Systems	12/2/2009	Active	50,000,000	14%	12	
BA-L1007	Barbados Competitiveness Program	12/15/2009	Active	10,000,000	16%	0		
<b>Inherited portfolio as of 12/31/2009</b>			<b>10 operations</b>	<b>7 active</b>	<b>138,642,056</b>	<b>23%</b>		
Approved loans 2010-2013	BA-L1022	Support for Sustainable Energy Framework for Barbados (SEFB) I	9/15/2010	Completed	45,000,000	100%	0	
	BA-L1024	Coastal Risk Assessment and Management Program	12/8/2010	Active	30,000,000	20%	12	
	BA-L1020	Sustainable Energy Investment Program	12/10/2010	Active	10,000,000	21%	0	
	BA-L1021	Support for Sustainable Energy Framework for Barbados (SEFB) II	11/2/2011	Completed	70,000,000	100%	0	
	BA-L1027	Four Seasons Barbados	5/23/2012	-	55,000,000	0%	-	
	BA-L1016	Skills for the Future	6/21/2012	Active	20,000,000	0%	0	
	BA-L1025	Public Sector Smart Energy (PSSE) Program	6/25/2012	Active	17,000,000	0%	0	
<b>2010-2013 approved portfolio</b>			<b>7 operations</b>	<b>5 active</b>	<b>247,000,000</b>	<b>50%</b>		
<b>Total loan Portfolio 2010-2013</b>			<b>17 operaciones</b>	<b>7 active</b>	<b>385,642,056</b>	<b>40%</b>		

Note: BA-L1015 Water and Sanitation Systems Upgrade was approved under the 2009-2013 CS.

## B. RELEVANCE OF THE 2009-2013 COUNTRY PROGRAM

The Bank's strategy was directly linked to Barbados' development strategy. The CS was prepared in close consultation with the government,<sup>31</sup> which values the Bank not only as a source of finance but also for its role as an important provider of technical

assistance, sector knowledge, and project management support.<sup>32</sup> In contrast to the previous strategy, CS 2009-2013 attempted to identify a smaller number of sectors in which the Bank had experience and could potentially contribute its greatest value-added, rather than spread its support over many areas with limited results. The CS focused on four objectives that were aligned with the Bank's corporate goals and the government's priorities and were relevant to the country's development challenges: (i) build resilience to coastal risks, natural disasters, and climate change; (ii) achieve a more efficient water supply and resource management; (iii) reduce the import bill and promote clean energy and its more efficient use; and (iv) improve the quality and relevance of the education system.

To justify Bank interventions in these sectors, the CS 2009-2013 presented an assessment of the country's main challenges,<sup>33</sup> but the selected areas were demand-driven. While the Bank conducted a dialogue with the new government, the selection of strategic areas supported by the Bank was demand-driven. This was evidenced by the fact that the Bank prepared technical notes only in those sectors requested by the government and did not analyze other areas in which the Bank has sector or technical expertise and the country faces particular development needs.<sup>34</sup> While this CPE does not argue that the Bank should have added more sectors to the CS, it does find that, from a technical standpoint, ongoing dialogue could be enhanced by also preparing sector notes in those areas in which the Bank is substantively engaged through its operational portfolio, thus providing an up-to-date technical review of the issues in those sectors (which may have changed since the original projects began).

While the Bank's programming was coherent with its strategy, this evaluation found a discrepancy between the focus of the CS and the Country Program Document (CPD) on one side, and the *de facto* operational portfolio on the other. This discrepancy reflects an inherent flaw in the CS and CPD guidelines: according to the guidelines, the CS and CPD documents are forward-looking strategic planning instruments and therefore should not focus on already active operations that do not fall under the new priority areas. The result, however, is that active projects that are "inherited"<sup>35</sup> from the previous strategy are overlooked in the country's CS and CPD. This issue is especially acute in countries with slow execution, because their relative share of these operations is large.<sup>36</sup> In Barbados, both the CS and CPD, despite their relevance, neglected to prioritize sectors in which the Bank was actively engaged, including public sector modernization (PSM) and competitiveness.<sup>37</sup> Similarly, neither the objectives in the CS nor the results framework in the CPD tracked the performance of the significant inherited portfolio, because the indicators were focused only on new operations. While the country office devoted considerable time and efforts to accelerating implementation of the older projects, results were not officially monitored or evaluated through the CPDs.

Given the challenges facing the country, the reasons for dropping public sector reform from the Bank's strategy are unclear. While the CS recognized in its diagnosis that the economic situation was difficult, it did not contemplate new support in the area of fiscal

reform until 2012, when it finally engaged in policy dialogue in this area to prepare a fiscal consolidation programmatic PBL. Although the PBL is not expected to materialize, the Bank will continue to support this area through economic and sector work and policy dialogue. In this instance, the separation between strategy and programming brought increased flexibility to respond to changing development needs, opening the door to initiate new dialogue on critical issues.

The Bank was financially relevant in Barbados for two reasons. First, it is a major lender to the country, accounting for 69% of debt to international financial institutions (IFIs), 18% of central government external debt, and 4.8% of total central government debt at end-2012. Second, in response to the country's weakened economic performance, the Bank increased its financial support by raising the financial envelope and by providing fast-disbursing PBLs. The Bank's financial envelope for December 2009-October 2013 was estimated at US\$200 million. However, actual approvals of sovereign-guaranteed loans during the strategy period totaled US\$242 million, a threefold increase over the previous strategy period. This amount included two programmatic PBLs in the energy sector totaling US\$115 million (US\$45 million in 2010 and US\$70 million in 2011). These fast-disbursing loans provided much-needed liquidity (1% and 1.6% of GDP in FY10 and FY11, respectively), and are expected to generate financial savings by reducing oil imports and energy costs over the medium to long term.

Net cash flows, which were negative during 2002-2008, became positive between 2009 and 2011, and have again turned negative since 2012 (Figure A2.29). This reversal was due to two factors: (i) two of the oldest and largest loans in the portfolio (Education and Coastal Infrastructure) were fully disbursed in 2009; and (ii) the two programmatic energy PBLs were disbursed in 2010-11. The approval of fast-disbursing loans was critical to increasing resource flows to Barbados during the economic crisis. Disbursements for 2010-2013 totaled US\$144 million, compared with US\$60.9 million in 2005-2009. Disbursements to Barbados (3-year average in 2012) were equivalent to 1.1% of GDP and 3.2% of total government expenditure. Figure 3 shows annual disbursements by loan type, highlighting the fact that until recently the Bank's portfolio had focused on investment loans.<sup>38</sup> Annual disbursements of investment loans averaged only 3% of undisbursed loan balances in 2010, increasing to 4.9% in 2011 and 5.1% in 2012; they are expected to reach 12% in 2013.<sup>39</sup> Although disbursements have been increasing consistently over the period, Barbados has long paid the highest share of credit fees relative to other IDB borrowers because of its history of low disbursements (Figure A2.30).

The mix of lending instruments has become a relevant feature of the Bank's financial relationship with Barbados, and will remain so while the country remains in recession. In recent years, the Bank has shown greater variety in the mix of financial instruments used in its program, moving from depending almost entirely on investment loans to also including fast-disbursing PBLs. The Bank's approach also showed a more programmatic approach, combining PBLs with a more strategic use of TCs (in the

energy sector, for instance). The use of PBLs was a financially relevant response to the country's weakened economic performance and will remain so while the country's economic activity is below its potential because of low external demand for its exports. Further use of this financial instrument, however, must be carefully assessed taking into account the country's overall macroeconomic stability.

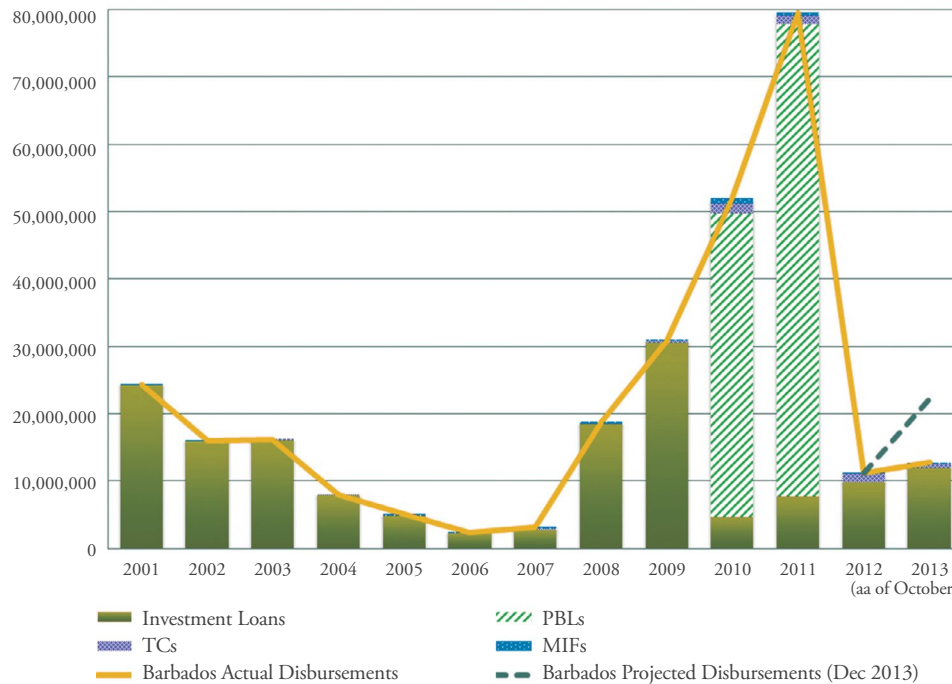


FIGURE 3.  
Annual disbursements (US\$)  
Source: OVE Database (OVEDA).

In some cases, TCs and analytical work were used in an integrated, programmatic way. For instance, TC and analytical work in the energy sector defined policy options and lines of intervention that the government subsequently used to set its vision and policies for the sector. Two large TCs financed comprehensive diagnostic and feasibility studies in education, and grant resources are also financing key studies related to fiscal consolidation and public sector reform (see Table A2.3).<sup>40</sup>

### C. PRIVATE SECTOR IN BARBADOS

The CS did not present a coherent strategy to work directly with Barbados's private sector. Private sector operations in such a small country could have greater aggregate macroeconomic effects than in a larger country. While the 2007 Strategic Guidelines for Private Sector Development in Barbados (BA-P1012) included five operations in its 2009/2010 Action Plan,<sup>41</sup> neither the private sector nor the identified operations figured prominently in the CS or CPD documents. Ultimately only one Structured and Corporate Finance loan was approved, in May 2012 –and it has yet to be signed.

The MIF largely supported the integration of small and medium enterprises and young entrepreneurs into the tourism value chain. It also provided support for savings and loan cooperatives—the largest MIF grant under review. The 2012 Forum on Microenterprise, held in Barbados, resulted in greater interest in the Bank’s work with microenterprises. Nonetheless, the use of MIF resources has been low. Of the nine active MIF operations (US\$2.6 million), only three were approved during the period under review (see Table A2.4). There is therefore scope to increase the MIF’s profile in Barbados, especially in the areas of green growth and climate change adaptation.

#### **D. CARIBBEAN REGIONAL PROGRAM IN BARBADOS**

The Country Office of Barbados is the hub for the majority of the Bank’s Regional Caribbean portfolio, although the CS and CPDs do not mention the fact.<sup>42</sup> The country office is involved in 51 operations and has the main disbursement and supervisory responsibility for 27 of these projects, some of which are directly linked to the Barbados program (see Table A2.5).<sup>43</sup> The Caribbean regional portfolio is a mix of operations of different types that include (i) historic lending to the Caribbean Development Bank (CDB) for nonmember countries in the Caribbean and of the Organization of Eastern Caribbean States (OECS);<sup>44</sup> (ii) operations executed through the Secretariat of the Caribbean Community (CARICOM) or specialized agencies (the Caribbean Disaster Emergency Management Agency, the Caribbean Community Climate Change Centre, etc.);<sup>45</sup> (iii) operations executed by nongovernmental organizations, universities, and the government;<sup>46</sup> and (iv) operations executed by the Bank.<sup>47</sup> Most projects address challenges broadly corresponding to the definition of transnational public goods, including some that offer economies of scale if countries work together and others that focus primarily on exchange of best practices and lessons learned at the country level.<sup>48</sup> The Barbados Country Office is currently conducting a review of regional operations in the Caribbean.<sup>49</sup> However, a large portion of the Caribbean Regional portfolio (Table A2.5), which has traditionally been managed by the country office, was not included in either the CS or CPDs even though Barbados benefited from a number these operations.

While the TCs provide some benefits to Barbados, including economies of scale and harmonization of regulations and standards through coordination, they constitute a heavy administrative burden for the country office. It is estimated that regional operations take up almost half of all the operational analysts’ time and represent many inefficiencies. For these operations, the country office has to submit reports in double: one for Barbados and one for the Region. In addition, Bank systems do not allow for the recognition of the country office as the responsible unit for all Caribbean regional operations. While the Caribbean Country Department provided the country office with one additional operations analyst for the regional program in 2011, the regional workload continues to be very high. In response to this situation, the country office has been able to close many regional operations as part of its efforts to streamline and better manage the entire portfolio.<sup>50</sup>

The Bank partnered with the CDB, the Canadian Department of Foreign Affairs, Trade and Development (DFATD), and the UK Department for International Development (DfID) to establish Compete Caribbean in 2010. This program, managed by a separate unit outside the country office, aims to support both private sector development and competitiveness and public sector institutional strengthening in 15 Caribbean countries, including Barbados.<sup>51</sup> Since 2010, Compete Caribbean approved a total of 70 operations for more than US\$13 million. Nine of these operations are regional and include Barbados, and two focus exclusively on Barbados (see Table A2.6).

## E. COUNTRY PROGRAM IMPLEMENTATION

Continued delays in project execution and disbursements remained a key characteristic of the Bank's program with Barbados. The past CPE noted similar findings, citing structural and institutional bottlenecks, complex project design, and overall low portfolio performance as the main reasons (Box A2.1 summarizes key findings and recommendations from the 2005-2009 CPE). An analysis of loan execution by milestones shows that, on average, overall processing time between loan approval and eligibility is very similar in Barbados to that in the rest of the Bank. However, from eligibility to first disbursement and onwards, projects in Barbados are much slower than the average in the rest of the Bank.<sup>52</sup> In fact, very few projects in the review period were able to pass the 25% disbursement mark (see Figures A2.31 and A2.32).

Slow implementation was due both to structural and institutional constraints on the country's side and to factors within the Bank's control. On the Bank's side, unsatisfactory project performance was due to poor project design (overly complex components, unrealistic deadlines, complicated procurements). On the country's side, the main challenges relate to procurement (including the current structure of the Solicitor General's Chambers), the long time required to make executive decisions and approve legislation, limited availability of human resources and in some cases weak project management skills, and complex approval of land acquisition and construction permits for infrastructure projects.

During the CS period the Bank took several important steps to address the issue of slow project implementation. Specifically, the country office completed a detailed diagnosis of the main implementation issues on both the Bank's side and the country's side (see Box 1). The Bank discussed the findings with the government and prepared an Action Plan to help remedy the bottlenecks over which it had some control. In addition, given that procurement processes are the main execution bottleneck, the Bank agreed to use negotiated memoranda of understanding between the government and contractors so that work could commence before the conclusion of contractual arrangements by the Solicitor General's Chambers, allowing the Bank to disburse against these memoranda for completed deliverables. In addition, the transfer of a Bank procurement specialist to the country office in June 2013 should bring some improvement in project execution.<sup>53</sup>



Climate change and water scarcity could result in several adverse effects on the island's natural resources and negative consequences for the tourist, fisheries, and related industries.

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The Action Plan focuses on the implementation of measures on four major fronts: (i) investment portfolio streamlining; (ii) project design optimization; (iii) project execution improvement; and (iv) institutional strengthening of the government. Some activities that have been carried out include a capacity assessment of project executing units (PEUs) and related training, and implementation of a website (“PEU-Hub”) that provides examples of standard templates (e.g., terms of reference). Partly as a result, there has been some recent progress in implementation: annual disbursements more than doubled in 2013, and an agreement has been reached with the government to cancel three underperforming loans (US\$37.8 million, see Table A2.7). While the cancellation puts at risk the attainment of development objectives for the three projects, it could be argued that, in any case, the loans would not have achieved their goals because of significant and repeated implementation problems.



Another important aspect for execution of Bank operations is not to exceed the country's absorptive capacity. This requires recognizing the limitations on the human resources available in the country and not placing excessive demands on them. The Bank's main counterpart in the government has 13 professional staff to coordinate over 140 projects, including all related missions. This places a large burden on their work schedule, especially during peak times of the budget cycle. For example, according to a Bank database, there have been 211 IDB missions to Barbados since January 1, 2009, 25 (12%) of which took place between January 1 and February 15 –the period during which the government requested that no missions be sent to allow time for the budget process.

Given the country's limited absorptive capacity, the Bank is discussing with the government the possibility of piloting a central fiduciary unit (CFU) to create economies of scale. Instead of having fiduciary specialists trained in Bank procedures in each project's PEU, a CFU would concentrate fiduciary activities in one entity. This report supports this pilot initiative (see Box 2).

#### BOX 1. MAJOR ISSUES AFFECTING PROJECT EXECUTION AND LOAN ADMINISTRATION IN BARBADOS

In 2012 the Country Office of Barbados commissioned a study to identify the major problems affecting project execution and loan administration.<sup>a</sup> The study attributed the poor execution and slow disbursements both to the way IDB projects are designed and/or structured and to the government's structural and institutional bottlenecks. During the mission interviews, limited country knowledge and understanding of the local context and the political economy in which projects execute were also identified as factors that inhibit Bank performance. The main problems are as follows:

1. *Design of complex or overly ambitious projects.* The need for strong institutional coordination and interdependent outcomes in comprehensive sectoral reforms has slowed the execution of a few projects. The Competitiveness (BA-L1007) and the Modernization of Statistical Services (BA-L1009) loans are two projects that are overly complex and demanding in terms of coordination, so that progress is jeopardized if just one agency fails to carry out its assignment in a timely fashion. For the Housing and Neighborhood Upgrading Program (BA-L1002), the complexity of construction works and neighborhood upgrading affected implementation and effectiveness.
2. *Project administration and staffing.* There is a general perception that the establishment of a separate PEU for every project financed by the Bank is counterproductive. Government officials argue that in a small country with limited human resources and a large number of projects under implementation, there are shortages of skilled personnel at every level. In addition, PEUs are often staffed with civil servants, requiring a lengthy approval process that has to go through the Personnel Administration Division; it may take 12-24 months to hire a manager. The amount of time spent by the PEUs in meetings and workshops

organized by the IDB, or in fulfilling IDB's reporting requirements, was also considered excessive. The establishment of Project Steering Committees to oversee coordination and implementation is regarded as useful; however, in some cases these committees have proven ineffective because they meet infrequently, delaying important decisions. In addition, difficulty in finding offices for PEUs delayed the start of several projects.

3. *Project management skills and knowledge of government and IDB fiduciary policies and procedures.* Many problems can be attributed to the lack of managerial experience among staff in leadership positions in the PEUs. It takes time for executing units to become acquainted with the Bank's procurement and financial management policies and procedures. In this regard, several government officials emphasized the Bank's frequent changes of policies and procedures as being onerous to PEUs, and argued in favor of simplifying procedures for small countries. In some instances, lack of local technical expertise for the preparation of terms of reference for consultants has been another major hurdle: it may take several months to draft terms of reference and another few months to agree on a final version.
4. *Structural and institutional bottlenecks in the approval and procurement processes.* This was identified as the single most important problem in terms of its negative impact on the execution of most projects. The two most significant structural obstacles are related to the Solicitor General's Chambers, which is responsible for reviewing and approving all contracts and is seriously understaffed, and to the Ministry of the Civil Service and the Personnel Administration Division, which have jurisdiction over the creation of posts and the hiring of staff in the public sector. The lengthy and difficult procurement process also constitutes a major source of delays, especially since the government requires procurements over the equivalent of US\$100,000 to go to the Special Tenders Committee for approval.
5. *Lengthy process of approval of new legislation and decisions.* Several projects have been delayed by the difficult process of approval of new legislation, which requires a number of intermediate steps and lengthy consultations among ministries and government agencies. Another challenge is the number of issues that must be resolved at Cabinet level. No realistic timeframes were established by the Bank or government.
6. *Land acquisition.* The timeframes established for the conclusion of land acquisition were also unrealistic. It is important that in the future such timeframes be determined before project implementation begins. This issue has been particularly relevant for certain projects, such as National Standards System (BA-L1006) and Agricultural Standards (BA-L1008), each of which had a component requiring land acquisition to build a lab. Although agreements were reached during project design on the choice of sites where infrastructure could be constructed, the final decision was significantly delayed. The Housing loan (BA-L1002) is another case in which land was considered an issue. Poor feasibility studies led to a lengthy process of identifying areas to be upgraded significantly, delaying the implementation of the program.

<sup>a</sup> See *Implementation Challenges Affecting Performance of IDB Financial Projects*.

## BOX 2. SOME PROS AND CONS OF A CENTRAL FIDUCIARY UNIT

Although Barbados' labor force is skilled, it is also small in absolute numbers. As a result, sometimes it is difficult to find fiduciary specialists who are available to staff a PEU and even more difficult to find fiduciary specialists who are knowledgeable about Bank fiduciary systems and procedures.

From the point of view of the Barbadian government, these problems arise with all IFI-financed projects, and they have important implications in terms of financial costs and delayed achievement of development objectives. On the basis of recommendations from an IDB-financed consultant report, the government is considering piloting a central fiduciary unit (CFU) that would be responsible for the fiduciary processes—financial management and procurement—of all IFI-financed projects.

A CFU would be staffed by fiduciary specialists who would over time acquire substantial experience with and knowledge of fiduciary systems and processes in Barbados, the Bank, and other IFIs, reducing errors and time invested in fiduciary processes with IFIs. These gains from specialization and economies of scale would imply that the number of staff at the CFU would be smaller than the sum of fiduciary specialists in all the PEUs of IFI-financed operations. Furthermore, a permanently staffed CFU would save Barbados the transaction cost of finding and hiring fiduciary specialists for every PEU that is formed.

A CFU could also have some disadvantages. First, by being distanced from the projects it could become insensitive to the specific needs of projects and potentially create another layer of bureaucracy—for example, the level of urgency of some processes, or technical specifications relevant for the procurement of equipment. Second, the CFU could become an entity that is not very concerned with the success of the projects and that instead poses obstacles to the technical PEUs of the projects. However, given the scale issues that a country like Barbados faces, the advantages of a successful CFU would likely outweigh the disadvantages.

In 1992 Peru created a coordination unit for sectoral loans (*Unidad de Coordinación de Préstamos Sectoriales*) in the Ministry of Finance and Economic Affairs to act as a CFU for some IFI-financed projects. The unit has brought some of the benefits but also some of the disadvantages described here. In creating a CFU, Barbados could benefit from the lessons of the Peruvian experience. The Bank could help in communicating the Peruvian experience to Barbados as well as in designing and setting up a well-staffed CFU in Barbados.

## F. COORDINATION WITH DEVELOPMENT PARTNERS

The evaluation found that the Bank's interaction with bilateral and multilateral donors has in general been close and productive.<sup>54</sup> The exchange of views and information with bilateral and multilateral agencies takes place mostly through informal contacts and quarterly meetings of the Consultative Donor Group,<sup>55</sup> which includes the major development agencies located in Barbados. The Bank has also maintained a formal dialogue with a small number of civil society organizations,



Downtown Bridgetown, Barbados.  
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and there is potential to engage further with them.<sup>56</sup> The Civil Society Consultative Group comprises 12 civil society organizations that provide feedback on issues affecting the Bank's portfolio and pipeline.

The CDB is the most important multilateral lender to Barbados after the IDB, and executes IDB resources for nonmember countries in the Caribbean and the Organization of Eastern Caribbean States. The CDB cofinanced the Bank's Education Support Program (BA0009, approved in 1998), which resulted in efficiency gains and useful coordination between the two institutions. The CDB continues to work in education, with a pilot project at the secondary level; it is also doing pre-investment work in the water sector, which will inform the IDB water project and its implementation. The CDB, which has a comparative advantage in working with small Caribbean states, executed three loans with IDB resources (about US\$50 million) during the period under review. A study is currently being conducted with the objective of further harmonizing and streamlining Bank procedures to work more efficiently and effectively with the CDB.

The Bank has also interacted closely with the European Union (EU), the United Nations Development Programme (UNDP), and the IMF. The EU has dedicated a large portion of its program (€9.8 million) to skills development, including the Human Resource Development Strategy that provided the foundation for the Bank's Skills for the Future loan. In 2013, with the participation of the Bank and other major stakeholders in the Region, the EU launched the Caribbean Investment Facility with an initial budget of €40 million. The EU also cofinanced the public sector Smart Energy program for a total of €5.8 million, maintaining very good communications with IDB staff. The Bank has provided assistance to the Safe Energy for All Program, a global initiative undertaken by UNDP to ensure access to energy for the whole population. In addition, the Bank cooperates with the IMF and the Caribbean Regional Technical Assistance Center (CARTAC) in the fiscal area, including on customs, tax policy, and the establishment of the Central Revenue Authority.

Barbados was graduated from the World Bank in 1993; however, since 2001, The World Bank has approved two HIV/AIDS loans to the country.<sup>57</sup> According to the World Bank, the rationale for assistance was clear: "Although Barbados was a middle-income country, with a well-established national health delivery system, it was estimated that more than 2% of the population was infected with HIV in 2001. The country also has a strong leadership role in the region, its health infrastructure is used by smaller neighboring countries, and it has a large, active tourism industry and is a hub for regional transportation. In addition, the country was not able to obtain financing for program expansion from other sources, since international donors were focusing their resources on poorer countries throughout the world"<sup>58</sup> (see Box 3).

#### BOX 3. A REFLECTION ON GRADUATION

Unlike the World Bank, the IDB does not have a graduation policy. At the World Bank, graduation is not an automatic consequence of reaching a particular income level; rather, it is based more broadly on a determination of whether the country is able to sustain its development process without recourse to multilateral resources, given its level of income, institutional development, vulnerability to shocks, and access to capital markets. While Barbados ranks high on level of income and institutional development, the vulnerability of the economy is so severe that in 2010 the country requested its first PBLs since 1995 to mitigate the impact of the global financial crisis. In addition, the increased financing needs caused by the prolonged downturn made it necessary for the Bank to provide more policy-based lending than was originally expected. Investors' appetites are also uncertain, given Barbados' economic decline and the downgrading of its credit rating. As of October 2013, Barbados shelved an attempt to raise US\$500 million in international markets. Given the country's current situation, it likely would not be eligible for graduation at this time.



The Coastal Infrastructure Program program resulted in effective erosion control and beach stabilization at popular locations along the west coast, increased beach volume, promoted greater biodiversity through the restoration of coastal habitats, and made significant improvements in public coastal access along 4.5 km of shoreline.

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# 3 Results

**The Bank has achieved limited results in Barbados because of project implementation that, except in the energy sector, is generally slow and weak. In general, the operations under review have not yet executed sufficiently to produce tangible outcomes, making it difficult to assess the achievement of the current CS. Furthermore, three operations approved under the 2005-2009 CS are scheduled for cancellation, and significant proportions of the approved amounts remain undisbursed. This chapter reviews the entire portfolio –active and closed– between December 2009 and October 2013, covering coastal risk management, water and sanitation, energy, and education as priority areas defined in the current CS, and PSM and private sector development as part of the 2005-2009 CS. Over half of the projects in the portfolio were approved under the previous CS, and one loan (the Justice Program) even before that (1999 Country Strategy).**

## **A. EVALUABILITY AND IMPLEMENTATION**

For several projects, and especially for those involving reformulation and cancellation, evaluability was affected by significant changes in the results framework that were due to extended project execution. The lack of robust monitoring systems hindered measurement and validation of project outputs and outcomes. Despite this, the Office of Oversight and Evaluation (OVE) validated some output results, most significantly in the energy sector.

Four major implementation challenges were encountered in most operations: (i) weak institutional capacity of the executing agencies; (ii) complex project design; (iii) procurement difficulties and contract condition compliance delays;

and (iv) lack of interagency coordination. Table 2 summarizes the main challenges to successful project implementation, from project design through completion, in each project.<sup>59</sup>

## **B. CS GOAL 1: BUILDING RESILIENCE TO COASTAL RISKS, NATURAL DISASTERS, AND CLIMATE CHANGE**

Progress in managing the coastal zone has been achieved, in part, through 30 years of continued Bank support to the sector (see Box 4). Today, Barbados is acknowledged as having one of the most integrated coastal zone management programs in the Caribbean, and it has been called upon to provide technical assistance to other countries that consider its model a best practice.<sup>60</sup>

The Coastal Risk Assessment and Management Program (BA-L1014) is the fourth in a series of loans that helped build resilience to coastal hazards through enhanced conservation and risk management. Approved in 2010 for US\$30 million, the loan complements previous operations that have led to the establishment of a permanent Coastal Zone Management Unit within the Ministry of Environment, Water Resources and Drainage; the positioning of a cadre of experienced and capable technicians at the helm of the unit; the enactment of forward-looking environmental protection legislation; and enhanced access to beaches and shoreline for residents and tourists alike.

Despite this progress, the current loan is just 20% disbursed. Implementation has been slow and has been adversely affected by (i) structural bottlenecks, including clogging in the approval of contracts; (ii) institutional obstacles related to the appointment of key staff; (iii) delays related to compliance with loan conditionality;<sup>61</sup> (iv) a misunderstanding about the PEU's procedures for project management and reporting; and (v) the complex project design. These constraints also affected the execution of the previous loan (BA0019). The PEU further contends that the inefficiency of the consultants who were engaged in the preparatory stage, and the lack of appropriate supervision over their tasks, created additional drag on project start-up.



TABLE 2. IMPLEMENTATION BOTTLENECKS BY LOAN

Investment loans by approval year (% disbursed as of October 2013)	2001	2005	2007	2008	2008	2008		2009	2009	2010	2010	2012	2012	
	BA-0055	BA-L1003	BA-L1006	BA-L1009	BA-L1004	BA-L1002	BA-L1008	BA-L1015	BA-L1007	BA-L1014	BA-L1020	BA-L1016	BA-L1025	
	Justice (100% disbd)	Customs, Excise and VAT (100% disbd)	Standards (22% disbd)	Statistics (53% disbd)	Procurement (24% disbd)	Housing (16% disbd)	Ag. Health and Food Control (3% disbd)	Water and Sanitation (14% disbd)	Competitiveness (16% disbd)	Coastal Management (20% disbd)	Energy Smart Fund (21% disbd)	Skills for the Future (0% disbd)	Public Sector Smart Energy (0% disbd)	% of operations with specific bottleneck
1) Executing Agency Institutional Capacity	√	√	√	√	√	√	√	-	√	√	√	-	√	92%
2) Procurement Difficulties and Contract Condition Compliance Delays	√	√	√	√	√	√	√	√	√	√	√	-	-	92%
3) Project Component Design	√	-	√	√	√	√	√	-	√	√	√	-	√	83%
4) Inter-Agency Coordination	√	√	-	√	√	-	√	√	√	-	-	-	-	58%
5) Approval of Legislation / Key Recommendations	-	√	√	√	√	-	√	-	√	-	-	-	-	50%
6) Borrower/ Executing Agency Commitment	√	√	-	√	-	-	√	√	-	-	-	-	-	42%
7) National Administrative/Policy Changes	-	-	√	√	-	-	-	-	√	-	-	-	-	25%
8) Consultant Performance	√	-	√	-	-	-	√	-	-	-	-	-	-	25%
9) Bank Efficiency Response Delays	-	-	-	√	-	-	√	-	√	-	-	-	-	25%
10) Inadequacy of Monitoring Evaluation System	√	√	-	-	-	-	-	-	-	-	-	-	-	17%
11) Bank Procedures Changes	-	-	√	√	-	-	-	-	-	-	-	-	-	17%
12) Stakeholder Opposition	-	-	-	-	-	√	-	√	-	-	-	-	-	17%
13) Cost Overrun	√	√	-	-	-	-	-	-	-	-	-	-	-	17%
14) Counterpart/ Local Resources Availability Shortfall	-	-	-	-	-	-	-	-	-	√	-	-	-	8%
15) Supplier Contractor Performance	-	-	-	-	-	-	-	-	-	-	√	-	-	8%

## C. CS GOAL 2: PROMOTING MORE EFFICIENT WATER SUPPLY AND RESOURCE MANAGEMENT

Approved in 2009, the Water and Sanitation Systems Upgrade Program (BA-L1015) is only 14% disbursed and has experienced several delays. According to the external Consultancy on Implementation Challenges Affecting the Performance of IDB Financed Projects,<sup>62</sup> disbursement eligibility was delayed by 17 months to finalize the project's governance structure. Since then, disbursements have been low, partly because the Barbados Water Authority did not meet Bank requirements for a US\$6.8 million procurement of 98,800 water meters.<sup>63</sup>

The Housing and Neighborhood Upgrading Program (BA-L1002), approved in 2008, is considered extremely delayed; as a result, a joint decision has been taken to cancel US\$19.5 million of the original US\$30 million approved. The operation has disbursed only 16%, and implementation has faced numerous challenges. The loan was approved in January 2008 –shortly before the new government assumed office, which resulted in delays in implementing the project while some aspects were reviewed. Although the design was financed by a project preparation facility and the operation was to be implemented in phases, the facility fell short of delivering a final design; as a result, loan implementation did not benefit from this facility. Only one of the four housing pilots was rehabilitated and could be considered a success. The pilot brought roads, street lights, garbage collection, sewerage, and sanitation facilities. According to the community, two positive externalities were the installation of natural gas lines financed by the government (easier and cheaper than propane), and the establishment of a community liaison officer and regular community meetings to discuss neighborhood issues.

### BOX 4. RESULTS FROM 30 YEARS OF COLLABORATION IN INTEGRATED COASTAL ZONE MANAGEMENT<sup>a</sup>

Progress in managing the coastal zone has been achieved, in part, through three decades of Bank support. In 1983 the Government of Barbados embarked on a program to improve coastal zone management, safeguard the character of the coastline, and protect marine habitats and significant infrastructure threatened by marine pollution and climate change, which brings such effects as erosion, sea level rise, and coral bleaching.

Initially, the Bank provided technical cooperation in the areas of data collection and analysis (modeling), institutional development, and policy formulation. The government undertook a diagnostic and prefeasibility study of the island's coasts, and a temporary Coastal Conservation Project Unit was established to oversee the work and assess the causes of coastal erosion and damage to beachfronts.<sup>b</sup> Building on this body of knowledge, the Coastal Conservation Pre-Investment Program (1991, US\$4.7 million) designed various measures for beach creation, stabilization, and enhancement along the west and south coasts, which had the greatest potential

for tourism infrastructure. As part of the loan, environmental impact assessments of existing and proposed works were carried out and demonstration projects for beach improvement and protection were constructed.

Encouraged by the successful implementation of the Pre-Investment Program, in 1994 the government sought further assistance from the Bank to finance Phase 1 of an island-wide coastal zone management program. Important outcomes of this collaboration included (i) the establishment of a permanent Coastal Zone Management Unit in the government to oversee the coral reefs around Barbados, including all coastal engineering projects, and to advise Town and Country Planning on coastal development;<sup>c</sup> and (ii) the passage of the Coastal Zone Management Act and the Marine Pollution Control and Integrated Coastal Management Plan, which provided development guidelines and management actions for each coastal segment. The loan also included support for the feasibility assessment of a package of capital works, which formed the basis of the Coastal Infrastructure Program (approved in 2002 for US\$17.9 million). This program resulted in effective erosion control and beach stabilization at popular locations along the west coast, increased beach volume, promoted greater biodiversity through the restoration of coastal habitats, and made significant improvements in public coastal access along 4.5 km of shoreline. These outcomes also had the added benefit of creating public space, such as the Richard Haynes Boardwalk, which has become a major draw for both residents and tourists, generating economic and social returns.

One objective of the current loan is to strengthen the Coastal Zone Management act and convert parts of the Plan into regulations. The Coastal Zone Management Unit is also developing a comprehensive coral reef restoration plan. The success of Barbados' integrated coastal zone management program and the specialized training received with Bank support have also positioned the country to leverage additional resources from the Global Environment Fund to continue its work in eco-based adaptation.

- a Coastal zone management is the practice of integrating sectors, government, and disciplines to address the coastal zone both in the water and on dry land.
- b For example, because inland Barbados had poor water quality, the runoff polluted the sea, damaging coral reefs. Natural phenomena such as storm swells also caused erosion, and the sea walls were found to be poorly designed.
- c It should be noted that the Coastal Zone Management Unit's recommendations are purely advisory and have no binding power. Regulations in the coastal zone are not retroactive for properties developed during the resort boom, and penalties for violations remain low. Nonetheless, this process is the closest Barbados comes to a formalized environmental impact assessment, and is the first of its kind in the Caribbean. The Coastal Zone Management Unit has been more successful in planning for low-impact future development along the more rugged east coast, for example, where the Physical Development Plan envisions a national park.



IDB has used fast-disbursing policy-based instruments to foster meaningful reforms in sustainable energy.  
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#### **D. CS GOAL 3: LOWERING OIL IMPORTS AND PROMOTING RENEWABLE ENERGY AND MORE EFFICIENT ENERGY USE**

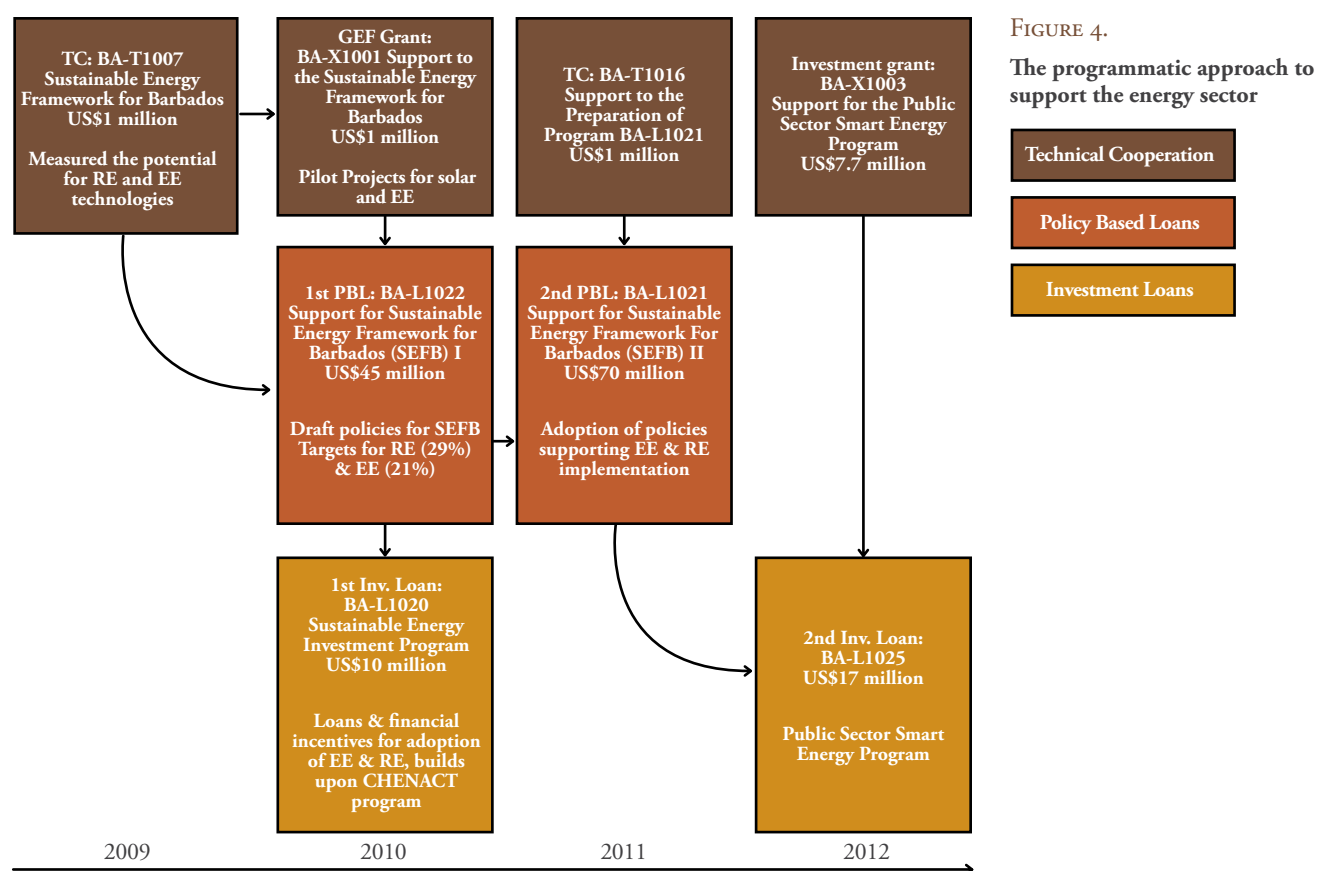
The Bank financed a set of interrelated investment loans, PBLs, and TCs to reduce the country's reliance on fossil fuels and promoting sustainable energy (see Figure 4). TC and analytic work were used to define policy options and interventions that the government subsequently used to establish its sector plan and policies: (i) BA-T1007 (2009) mapped a range of technological and economically feasible energy efficiency (EE) and renewable energy (RE) measures, and (ii) BA-T1016 (2010) prepared a Nationally Appropriate Mitigation Action plan to help the country access international carbon finance in exchange for reductions in greenhouse gas emissions. Investment grants were also used to pilot renewable energy options: (i) BA-X1001 (2011) created pilot projects for the installation of solar energy and distribution of energy-efficient light bulbs, and (ii) BA-X1003 (2012) supported the government's smart energy program.

PBLs were used strategically to advance policies and legislation to promote energy efficiency and renewable energy. The first PBL (BA-L1022), the Sustainable Energy Framework in Barbados (SEFB) I, approved in 2010 for US\$45 million, built on previous technical assistance work (BA-T1007) by mapping EE and RE measures; and SEFB II (BA-L1021), approved in 2011 for US\$70 million, included as a condition the Cabinet's adoption of a renewable energy policy and draft legislation. A central component of these PBLs –the adoption of policies allowing independent power producers to feed electricity to the grid, and enabling residents and businesses that use RE to generate electricity for their own consumption to sell excess electricity to the grid– opened the door for an increased share of electricity based on renewable sources. The PBLs set targets for the share of RE at 29% and for EE savings of 21% by 2030. The government approved a Capacity and Institutional Strengthening Plan for the energy sector and created a renewable energy unit.

Two investment loans (BA-L1020 and BA-L1025) were approved to support the implementation of the RE and EE measures identified in SEFB I and II. However, most of these measures are still in the pre-implementation stages. Under the Sustainable Energy Framework, the government adopted the RE and EE policies and several policy recommendations, and drafted RE and EE legislation. Increased budgetary funding from the PBLs facilitated the installation and increase of solar capacity. The SMART Fund (BA-L1020) seeks to provide financial incentives and instruments to address market failures impeding the market penetration of EE and RE among residents and businesses. As a result, 62 hotels have received energy audits; however, only 12 of them have applied for loans to implement energy efficiency upgrades, and only one loan has been approved.<sup>64</sup> Many hotels in Barbados are still struggling to recover from the recession and therefore are either reluctant or unable to qualify for the loans. The security and collateral requirements to obtain loans from the Enterprise Growth Fund, Ltd. (the sub-executing agency

of the SMART Fund) have also been a barrier for hotels. The Public Sector Smart Energy Program (BA-L1025), which plans to retrofit government buildings with energy-efficient technologies and increase the use of renewables in government, was signed in November 2013 and has not yet begun disbursing.<sup>65</sup>

A critical barrier to implementation of the SEFB and the two investment loans has been the weak technical capacity of the Ministry of Energy. Government officials have highlighted capacity issues and expressed the need for three or four additional staff positions in the ministry.<sup>66</sup>



## E. CS GOAL 4: IMPROVING THE QUALITY AND RELEVANCE OF EDUCATION

The main objective of the Skills for the Future operation (BA-L1016) is to support the government's Human Resource Development Strategy. The operation, approved in June 2012,<sup>67</sup> emphasizes improving the quality and relevance of secondary education and the effectiveness of technical and vocational education and training. The time elapsed between loan approval and eligibility was 14 months, and the first disbursement took place in December 2013. The delay was partly due to the complexity and nature

of the Operations Manual and the related documents, which were to be reviewed by the Project Steering Committee. While the operation has a focus on supporting training efforts in the business sector, one component of the program aims to provide both secondary and post-secondary students with life skills that make youth more employable (such as, punctuality, teamwork, communication, problem solving). To this end, a regional MIF grant (RG-M1168) and an intraregional TC (BA-T1018) financed the design of the “A Ganar” employability intervention customized to the Barbadian context (including a study tour to Jamaica where another “A Ganar” program is being implemented. While there are no outputs or outcomes yet to report, the design of the project provides a good example of incorporating the lessons of experience (see Box 5).

## **F. PREVIOUS CS GOALS: SUPPORTING PUBLIC SECTOR MODERNIZATION AND PRIVATE SECTOR DEVELOPMENT**

The 2005-2009 CS focused on addressing institutional and capacity weaknesses that inhibited the efficient and competitive functioning of the public and private sectors. To attain this outcome, the CS assigned priority to three strategic areas: (i) strengthening the environment for private sector growth, (ii) maintaining and improving infrastructure and human capital, and (iii) strengthening public sector institutions. Most of the operations from the 2005-2009 CS –and even before–that remained active during the current period are experiencing significant challenges to achieve their objectives. Of the seven investment loans in this category, only two have been completed (Justice Program and Customs, Excise, and VAT Areas), and one (Statistics) is halfway through. The remaining are still less than 24% disbursed. The CS envisaged five MIF grants and one MIF loan, of which five were completed.

### **1. Justice Program (BA0055)**

The Justice Program was approved in 2001 and executed over a period of 11 years – seven years longer than planned. Implementation was very slow from 2002 to 2008, but a Bank administrative review led to a program restructuring and subsequent identification of new components to improve program implementation starting in 2009. During the initial years of implementation, the project faced the following issues: (i) lack of demonstrable gains in implementation resulted in a loss of interest in the program; (ii) the large number of activities and stakeholders involved in the project made execution very complex; and (iii) the program design was not results-oriented, and progress was not systematically monitored.

OVE found little evidence of outcomes achieved with respect to the original design –of the 13 original program subcomponents, only two were successfully completed (expanding collaboration with civil society and strengthening the rehabilitation capacity of correctional facilities). During the long time elapsed, new priorities for the sector emerged and required a restructuring of the program. The restructured

BOX 5. LEARNING FROM PAST ISSUES TO IMPROVE PROJECT DESIGN: THE CASE OF THE EDUCATION SECTOR

The Skills for the Future operation follows another Bank education loan, Education Sector Enhancement Program (ESEP), that supported a major reform program at the primary and secondary levels. Originally designed for implementation in 7 years, ESEP was in execution for 11 years (1998-2009), with an original loan amount of US\$85 million from IDB, US\$31.5 million from CDB, and US\$96.6 million from the Government of Barbados. The loan was significantly restructured in 2008.

The ESEP final evaluation documents several lessons. “The first lesson relates to a more thorough understanding of the learning environment to inform project design. In this case, planners would have been able to identify that there was a need for an intensive shift in pedagogy before teachers could meaningfully embrace technology. The second lesson is that more thorough preparation would have pointed to the fact that the ESEP was a far too ambitious program for a country the size of Barbados. The human capacity did not exist to support the major achievements that were to occur in a 7 year timeframe. The second lesson also relates to the establishment and operation of committees that support project success. [...] The third lesson is that of using information from the ‘test and fix’ approach to change project implementation and enhance program outcomes.” The “test and fix” approach, which involves “real-time” evaluation, was not fully implemented as originally planned.

The design of the Skills for the Future operation does indeed reflect learning from experience. In particular, (i) two large Social Fund TCs (US\$365,000 and US\$640,000) were approved to do the upstream work, including key diagnostic studies (“A Ganar” model in Barbados), conferences to discuss technical issues, and study tours to inform project design; (ii) a much simpler project was designed, with both fewer and less complex components and procurements, excluding infrastructure—a common source of delay because of complicated land acquisition and construction permit requirements; and (iii) an interministerial steering committee was formally established through a memorandum of understanding, with regular meeting dates and defined responsibilities.

Other key lessons included (i) the provision of significant support to the government to meet “conditions prior” and make some key procurement decisions; (ii) the drafting of all project terms of reference, training of the project execution team in project management for results and use of MS Project; and (iii) direct contracting of a firm to execute the “A Ganar” pilot. On the country’s side, the Ministry was proactive in selecting and contracting key staff. Infrastructure was left out of the program because the sites for the construction of new secondary schools were not defined.

The new education project is benefiting from a rare combination of continuity on both the country side and the Bank side: the director of the program coordinating and implementation unit and the Bank’s project team leader who closed the last education project are still both in charge of the new education project. Together they provide not only stability in leadership but also institutional memory, potentially leading to faster execution. However, complex interministerial coordination (among the Ministry of Education, Ministry of Labor, TVET Council, Samuel Jackman Prescod Polytechnic, and the Barbados Vocational Training Board), especially to execute the cross-sectoral project on school-to-work transition, could hinder the effectiveness of the program.

project redirected undisbursed funds to support six new activities, including the rehabilitation of judicial infrastructure and the procurement of legal books for the Office of the Chief Parliamentary Council, the Supreme Court, the Office of the Attorney General, and the Ministry of Home Affairs. Case management of judicial processes was designed. However, legislation for alternative dispute resolutions, which was a major loan objective, is still pending.

## **2. Modernization of Customs, Excise, and VAT Areas (BA-L1003)**

The Program for the Modernization of Customs, Excise and Value Added Tax Areas was approved in November 2005 and, after an 18-month extension, completed in October 2011. The reform package focused extensively on the modernization of IT systems and the drafting of new legislation, including modern customs legislation and a new Excise Act and regulations. Most of the program's planned outputs were completed, but key planned outcome indicators concerning the burden of customs procedures and the extent and effect of taxation were not achieved. Several factors hindered implementation. In particular, unclear business processes delayed the implementation of the VAT and Excise Tax Administration System. In addition, delays in procurement and in enacting new legislation, along with the lack of a dedicated high-level management team at the Customs and Excise Department, prevented the achievement of key program outcomes. Project officials noted that the expected results were likely to be achieved within two years. The overall performance of the program in terms of monitoring was weak, despite the availability of performance data. It is important to underline that the focus of the program was almost exclusively on customs and tax administration. Critical tax policy issues (for instance, the proliferation of tax incentives and discretionary waivers) are now beginning to be addressed. One externality of this operation was its interaction with the Competitiveness Program to implement the Electronic Single Window.

## **3. Other public sector modernization operations**

Other key PSM interventions focused on the areas of statistical services, national standards, public procurement, and business climate reforms. Successfully addressing issues in these areas was considered essential to (i) enhance structural competitiveness by reducing the bureaucratic burden on the private sector, and (ii) increase the efficiency of government services and procedures, including accelerating project implementation. Nevertheless, these operations are still not producing significant results for several reasons related to both program design and execution. For instance, the Modernization of the Barbados National Procurement System (BA-L1004) was intended to address some of the structural and institutional bottlenecks related to the public procurement system, but progress in addressing the lengthy procedures related to the Solicitor General's Chambers and Special Tenders Committee has been limited. Furthermore, the implementation of the loan has been hampered by bottlenecks in the approval of procurement legislation. The Modernization of the Barbados Statistical





Service (BA-L1009) and the Competitiveness Program (BA-L1007) were too broad and complex, with the government lacking the capacity and degree of coordination needed to implement them on a timely basis. The Statistics loan has nonetheless managed to execute after successfully bundling some activities, but some components of the Competitiveness loan are likely to be canceled. For the Modernization of the National Standards System (BA-L1006) and the Agricultural Health and Food Control Program (BA-L1008), the designation of the sites for the new lab complexes was significantly delayed because of a lack of agreement on their location. Recently, the government decided to locate both labs on the same site, allowing for economies of scale and permitting the cancellation of the balance of these funds.

#### **4. Institutional Strengthening of the Savings and Loan Cooperative Sector (BA-M1001)**

This MIF grant, approved in December 2005, was designed to improve access to financial services by strengthening the credit union sector, and to enhance the ability of the regulatory agency to implement risk-based supervision of credit unions. Implementation was hindered by difficulties in designing and executing a project in which both the

Limited access to finance by small and medium-size businesses has also been identified as a factor that has an adverse impact on competitiveness.  
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Because the country has made significant investments in the social sectors, it ranks 38<sup>th</sup> out of 186 nations in the 2013 United Nations Development Programme's Human Development Index, and it compares favorably on a wide range of social and structural competitiveness indicators, including life expectancy and access to drinking water, electricity, and education.  
© Derek Hatfield, 2009

regulator and the regulated were subject to changes over time. In late 2011, the regulation of credit unions was transferred from the Registrar Office to the Financial Services Commission (FSC), which is now in charge of regulating and supervising non-bank financial institutions. Insufficient cooperation and coordination between the Registrar, the FSC, and the Barbados Cooperative Credit Union League constituted a major drawback to project implementation. As a consequence, the project results were mixed. There was some expansion of the scope of the financial services provided by credit unions, and relevant training courses allowed credit unions to improve risk management. However, the growth targets of the program were not achieved, mainly because of the 2008 financial crisis. On the regulatory side, steps were taken to introduce risk-based supervision, but the process is still in progress through the Financial Services Commission. Several members of the Registrar's staff were trained in regulation and supervision of credit unions, but only a few were recruited by the Financial Services Commission. In addition, progress in developing a new reporting system has been slow, and the targets established for several monitoring indicators were not achieved. In particular, the proportion of nonperforming loans in credit unions has increased as a result of the crisis.

### 5. Four Seasons Barbados (BA-L1027)

In May 2012, the Bank approved a US\$55 million Structured and Corporate Finance loan to construct a 110-room hotel to be operated by Four Seasons. The project was expected to have a positive development impact; however, it has yet to satisfy the conditions precedent to signing the loan agreement. The loan was approved, but concerns were raised about the reputational and financial risks that the operation could pose to the Bank; the lack of interest from private investors following the halt of the project in 2009; and the lack of a coherent argument for the Bank's additionality in high-end luxury tourism.



Barbados has near-universal access to primary and secondary education, and it is working to improve education quality and relevance.  
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# 4 Conclusions and Recommendations

**During 2009-2013, Barbados' weakened economic situation deteriorated further because of the global financial crisis and its effects on tourism and other related sectors. As a result, the Bank was financially relevant, especially through its use of fast-disbursing instruments. However, the Bank's development effectiveness has been hindered by implementation delays. Although the Bank has worked in sectors that are relevant, it urgently needs to find ways to improve the execution of both new and continuing operations. In this regard, the country office is implementing an Action Plan to help address execution issues, but it is important to take decisive action and monitor follow-up. Looking forward, the Bank could increase its relevance and effectiveness by continuing dialogue with the government on promoting reforms to address the country's large fiscal imbalances –a major macroeconomic concern– and by strengthening its support for the private sector.**

In light of these findings, OVE recommends the following:

1. Continue to work with the Government of Barbados to find ways to improve project execution:
  - Fully implement the Action Plan, including adhering to a timeline for implementation and a results framework for monitoring and evaluation.
  - Establish criteria to gauge the complexity of project design.



For the Housing and Neighborhood Upgrading Program (BA-L1002), the complexity of construction works and neighborhood upgrading affected implementation and effectiveness.

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- Invest in further analysis of constraints to procurement and identify ways to address them. Continue to offer assistance to strengthen the Solicitor General's Chambers.
- Explore with the government the feasibility of establishing a central fiduciary unit to manage multiple projects.

2. Strengthen the relevance and development effectiveness of the Bank's program in Barbados through a greater engagement with the private sector –in particular, making better use of MIF operations. Better factor into the Bank's private sector strategy the constraints of small open economies. Ensure that

private sector operations have demonstrated financial additionality beyond what local institutions can offer, support the development objectives of the CS, and confirm that all risks are carefully assessed and mitigated.

**3. *Recommendation for VPC in general:*** Revise the CS and CPD guidelines to reflect active areas of intervention in the portfolio, including recognition of the inherited and regional portfolios. This means preparing technical sector notes for the main areas of the inherited portfolio as an input to ongoing policy dialogue. These operations should also be included in the CS and CPD results frameworks.





- <sup>1</sup> On the Bank's Risk Management Index (RMI), Barbados rates 44.62 on a scale ranging from 0 to 100, with 0 being the highest risk and 100 the lowest. The index measures performance in risk management in terms of four public policy areas of disaster risk management (risk identification, risk reduction, disaster management, and governance and financial protection).
- <sup>2</sup> According to the IMF, unadjusted nominal per capita GDP was US\$16,150 in 2012.
- <sup>3</sup> Life expectancy at birth was 77 years in 2012 (UNDP).
- <sup>4</sup> The primary rate was measured in 2008, and the secondary and tertiary rates in 2011; the figures here represent net rates for primary and secondary education levels, and gross rate for the tertiary level (World Bank). There are gender disparities: boys are more likely to leave school early. Education is free up to the tertiary level and compulsory up to the secondary level.
- <sup>5</sup> Although the overall trend shows improvement, 50% of students completing secondary education in 2012 never signed up to take the Caribbean Secondary Education Certification, meaning that one of every two young people leaves school without any formal certification. Only 30% of students who take the certification exams achieve four or more passes, the minimum requirement for government or formal sector jobs. Source: Ministry of Education and Human Resources, 2012.
- <sup>6</sup> The poverty figures should be taken with caution because the methodologies used in the two poverty assessments (1997 and 2010) are not strictly comparable.
- <sup>7</sup> World Travel and Tourism Council (2013) and Central Bank of Barbados (2013). The hotel and restaurant industries are considered direct contributors to tourism, while the indirect contributions come from the transportation, wholesale and retail, telecommunications, financial services, and construction sectors.
- <sup>8</sup> See Figure A2.7 for the sectors' contribution to GDP. Source: Central Bank of Barbados, 2013.
- <sup>9</sup> Estimates based on a decomposition of the three main sources of growth (capital, labor, and total factor productivity) prepared by the IMF suggest that total factor productivity has declined significantly over the last 20 years.
- <sup>10</sup> The most recent real exchange rate assessment prepared by the IMF in 2011 suggested, however, that the BD\$, while somewhat overvalued, was still broadly in line with fundamentals. Results based on the equilibrium real exchange rate approach indicated that the BD\$ was close to its equilibrium level, while those based on the macro balance and external sustainability approaches showed an overvaluation of between 7% and 11%.
- <sup>11</sup> Worldwide governance indicators consistently rank Barbados in the highest percentiles. In 2011, Barbados ranked in the 90th percentile or above in the control of corruption, government effectiveness, and political stability and absence of violence or terrorism. However, the country ranks much lower regarding the quality of its regulatory framework. See Figure A2.8 and A2.9 for a comparison of World Governance Indicators for The Bahamas, Barbados, Jamaica, and Trinidad and Tobago.
- <sup>12</sup> See Government of Barbados, Schedules of Personal Emoluments, 2011.
- <sup>13</sup> Central Bank of Barbados (2012) and Barbados Economic and Social Report (2009).
- <sup>14</sup> According to the World Development Indicators (WDI) database, in 1990 and 2000 Barbados' rate of emigration among people with tertiary education was approximately 69% and 63%, respectively (around the 90th percentile of the distribution among 191 countries).
- <sup>15</sup> See IMF 2013, Macroeconomic Issues in Small States and Implications for Fund Engagement.
- <sup>16</sup> These figures refer to the coefficient of variation in annual real GDP growth over a period of 50 years. The world median takes into account only 95 countries (including 10 small states) for which there are 50 years of available data. Calculated with WDI data.
- <sup>17</sup> UNEP, 2010.
- <sup>18</sup> UN, Water Report, 2012.
- <sup>19</sup> World Bank, Doing Business Report 2013.
- <sup>20</sup> CCB Caribbean Region Quarterly Bulletin, 2013.

- <sup>21</sup> Data in this paragraph come from the Central Bank of Barbados.
- <sup>22</sup> Data from the Central Bank of Barbados and Ministry of Tourism.
- <sup>23</sup> Figure A2.18 compares unemployment rates for The Bahamas, Barbados, Jamaica, and Trinidad and Tobago.
- <sup>24</sup> These figures exclude the debt of public corporations, which is estimated at 15% of GDP at end-September 2013.
- <sup>25</sup> Central Bank of Barbados, 2013. Barbados has maintained a fixed exchange rate (set at BD\$2 per US\$1) since 1975.
- <sup>26</sup> As of June 2013, the aggregate capital adequacy of commercial banks stood at 21.5%, well above the minimum regulatory requirement of 8%. Liquidity in the banking system continues to be high, with the ratio of liquid assets to total assets reaching 17% as of June 2013. Nonperforming loans increased steadily from 2.9% in 2007 to 13.9% in June 2013. Loss provisions remain low at 36.2% of nonperforming loans, although nearly 80% of nonperforming loans are in the category of substandard loans, which is the earliest stage of nonperformance. Regarding profitability, the banks' return on equity declined from 19.3% in 2007 to 4% in 2012. Source: Central Bank of Barbados, 2013 (see Table A2.1).
- <sup>27</sup> Barbados' insurance industry was affected in 2008 by the collapse of the Trinidad and Tobago-based CL Financial Group. Many of the group's subsidiaries, including two in Barbados (CLICO Ltd. and BAICO), faced liquidity and solvency problems. The settlement of CLICO's obligations remains unresolved (in June 2013 the judicial manager presented a final recommendation to the Barbados High Court regarding a resolution of CLICO's insolvency), but the resolution of BAICO is near completion. Despite the collapse of these two companies, the Barbados insurance industry has shown resilience and remains stable.
- <sup>28</sup> An illustrative sensitivity analysis of central government debt included in Annex 1 indicates that Barbados will require primary surpluses on the order of 3.5-4% of GDP over the medium term to reduce the central government debt to 114% of GDP (or to below 80% of GDP after netting out the debt held by the NIS) by FY18.
- <sup>29</sup> In this context, the government recently announced measures to reduce public sector employment.
- <sup>30</sup> The broad objectives of the MTDS are to (i) sustain a GDP growth of 3% or above; (ii) attract more foreign direct investment; (iii) keep unemployment rates in single digits; (iv) maintain a low rate of inflation, a sustainable external current account, and a credible exchange rate peg; (v) reduce poverty; and (vi) protect the environment and promote climate change adaptation.
- <sup>31</sup> The Democratic Labour Party won the elections in January 2008. Once the new administration had concluded several months of internal reviews, it began discussions with the Bank on a new programming exercise.
- <sup>32</sup> Government counterparts repeatedly mentioned this during interviews.
- <sup>33</sup> The 2009-2013 CS identified the following major challenges: (i) a fragile fiscal situation and increasing trajectory of government debt, the high exposure to international financial crisis, and the worsening current account deficit; (ii) weaknesses in the local business climate and loss of trade preferences in the country's main export markets; (iii) high energy costs and reliance on imported oil for energy, which constitute a drain on competitiveness and a burden on the import bill; (iv) scarce and poorly managed water supplies, which, with coastal erosion and climate change, may hinder the tourism sector; and (v) unmet needs in labor markets and youth unemployment.
- <sup>34</sup> For instance, it is not clear why the health sector was not considered, given the island's high and increasing rates of chronic disease, which have important effects on worker productivity, health care costs, and general well-being. Similarly, an operation to rationalize and improve the targeting of the country's various welfare programs and avoid duplication would represent fiscal savings for the country. Given the significant share of energy consumption by the transport sector and the high levels of traffic congestion on the island, further diagnosis of the transportation sector would also have been warranted.

- <sup>35</sup> The inherited portfolio refers to all operations that were approved before the current country strategy period and remained active after November 2009.
- <sup>36</sup> This flaw in the guidelines for preparing CSs could be examined at the level of the Vice-Presidency for Countries. The guidelines for CSs and CPDs should consider requiring monitoring and evaluation of older but still active loans.
- <sup>37</sup> Of the 10 “inherited” loans, five were focused on PSM: Customs (BA-L1003), National Standards (BA-L1006), National Statistics (BA-L1009), National Procurement (BA-L1004), and Justice (BA0055). The Agricultural Health and Food Safety (BA-L1008) and the Competitiveness Program (BA-L1007) were approved at the start of the current strategy period (in December 2009), but were envisaged under the previous strategy (2005-2008). This inherited portfolio was actually *larger* than the newly approved portfolio in terms of the number of loan operations (10 vs. 7). Furthermore, given the slow execution of the portfolio as a whole, and the fact that 7 of the 9 “inherited” loans still remain active in 2013 (with an average disbursement rate of 15% as of October 2013), these sectors should have been given greater attention.
- <sup>38</sup> Before the programmatic energy PBLs, the last PBL was approved in 1995. It was a one-tranche operation (BA-0012) for US\$35 million.
- <sup>39</sup> Barbados Country Office projections.
- <sup>40</sup> The TC financed a Public Sector Institutional Assessment and Expenditure Review completed in 2013. Specifically, a consulting firm completed an institutional assessment of five government sectors targeted for reform with a view to determining (i) whether there are agencies with duplicate functions or agencies that are no longer necessary; (ii) what central government resources are allocated to each entity; and (iii) whether the user fees charged are adequate. The consultants made recommendations for rationalizing publicly financed entities in these five critical sectors, and the next step would be to prepare a phased implementation plan to carry out those recommendations through the fiscal consolidation program.
- <sup>41</sup> The identified operations were in the energy, tourism, and finance and capital markets sectors.
- <sup>42</sup> Regional TCs are operations whose benefits cannot be assigned to any single country.
- <sup>43</sup> Relevant TCs fall into this category—e.g., RG-T1431 *Caribbean Hotel Energy Efficiency and Renewable Energy Action Program* (US\$1 million) supports energy efficiency audits in the region and complements the sustainable energy framework in Barbados.
- <sup>44</sup> E.g., RG-L1018 *CDB Global Loan Program for the IDA-Eligible OECS Member Countries* (US\$20 million), RG-L1006 *Grenada Reconstruction, Recovery and Development Program* (US\$10 million), and RG0056 *CDB Global Loan* (US\$20 million).
- <sup>45</sup> E.g., RG-T1508 *Common Framework for Statistics Production in CARICOM*, in which seven country members were expected to implement a common population census framework in their national legislations; RG-M1162 *Regional Integration of Public Procurement*; RG-T1555 *Support to the Caribbean Sustainable Energy Road Map*; and RG-T1205 *Regional Disaster Risk Management for Sustainable Tourism in the Caribbean*, in which a framework was to be developed and adopted by the end of the project.
- <sup>46</sup> E.g., RG-X1075 *Caribbean Skills Development for Global Competitiveness*.
- <sup>47</sup> E.g., RG-T1428 *Support to CARTAC*.
- <sup>48</sup> E.g., RG-T1276 *Sharing Strategies for Combatting Non-communicable Diseases in the Caribbean*.
- <sup>49</sup> The assessment, due in December 2013, includes the following: (i) analysis of the portfolio in terms of its performance, relevance, efficacy, and alignment with the priorities of the Bank and the region; (ii) review of the institutional framework and monitoring mechanisms; and (iii) review of potential areas of broader collaboration with development institutions operating in the Caribbean.
- <sup>50</sup> Of the 51 regional operations, 28 were inherited from the previous portfolio. The country office was able to close 19, so 9 are still active. Of the 23 newly approved regional operations, all are still active.

- <sup>51</sup> The Bank provides in-kind support—facilities in the country office and professional and administrative staff—to the Compete Caribbean program.
- <sup>52</sup> For example, while the Bank’s average between eligibility and 10% disbursed is 347 days, Barbados averages 890 days.
- <sup>53</sup> While placement of a Bank procurement specialist is unlikely to alleviate the structural issues associated with the government’s procurement processes, the specialist can start to propose more innovative solutions to long-standing problems, with the hope that the situation will change.
- <sup>54</sup> The most active development partners in Barbados are the UN System, CDB, the European Union, the European Investment Bank, the Caribbean Regional Technical Assistance Center, DFATD, DfID, the United States Agency for International Development, and Germany’s GTZ (see Table A2.8). DfID and DFATD do not have specific programs with Barbados, only regional ones.
- <sup>55</sup> The Bank also chairs the governance group of the UNDP-supported Eastern Caribbean Partner Development Group.
- <sup>56</sup> For example, consultation with civil society early in loan preparation was identified as an area for improvement.
- <sup>57</sup> In June 2001, the Barbados HIV/AIDS Project (US\$15.5 million) became the first program approved by the World Bank under the Multi-Country HIV/AIDS Prevention and Control Adaptable Program Loan for the Caribbean. In August 2008, the World Bank approved a new US\$35 million loan for HIV/AIDS Prevention and Control.
- <sup>58</sup> World Bank. Barbados HIV/AIDS Prevention and Control Project – Results Story. November 19, 2013.
- <sup>59</sup> See Table A2.9 for a detailed version of the table.
- <sup>60</sup> The Coastal Zone Management Unit has provided technical assistance to Colombia, St. Lucia, Trinidad and Tobago, and St. Vincent and the Grenadines.
- <sup>61</sup> The hiring of key staff for the PEU was a special condition to first disbursement.
- <sup>62</sup> EKT & Associates, Ltd., 2012.
- <sup>63</sup> On the basis of the revised project execution plan presented in 2012, the disbursement expiration date has been extended by one year.
- <sup>64</sup> The process for receiving a SMART fund loan is as follows: the hotel applies for a grant to receive an energy audit; it submits to a technical committee its proposal to implement the recommendations; and once the proposal is approved, the hotel may apply for a loan through the local bank.
- <sup>65</sup> The program will fund the installation of approximately 25,000 LED street lights and a pilot project to use solar-powered electric vehicles and to use natural gas for heavy trucks in the public sector.
- <sup>66</sup> For example, training in project management was considered insufficient, and the only engineering school in the region is located not in Barbados but in Trinidad and Tobago, making it more difficult to hire qualified candidates.
- <sup>67</sup> The operation was postponed for a year to allow for the completion of feasibility studies before approval.