

CARIBBEAN DEVELOPMENT BANK

TWO HUNDRED AND SIXTY-FOURTH MEETING OF THE BOARD OF DIRECTORS

TO BE HELD IN BARBADOS

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COUNTRY STRATEGY PAPER, 2015-18
BARBADOS

1. The attached Country Strategy Paper outlines the Caribbean Development Bank's (CDB) partnership with Barbados over the period 2015-18. It sets out the strategic direction for CDB's engagement and defines the parameters of its support.
2. The Proposed Country Strategy rests on three pillars: macroeconomic governance and institutional development; competitiveness and productivity; and green, inclusive development. The indicative programme of assistance has been designed to achieve the following outcomes: (i) strengthened fiscal sustainability and supporting institutions; (ii) enhanced enabling environment to strengthen competitiveness and productivity; (iii) strengthened resilience to climate change and improved disaster risk management; (iv) improved quality of climate-resilient infrastructure; (v) increased access to tertiary education opportunities; and (vi) enhanced social development. Gender equality, as well as energy efficiency considerations will be mainstreamed in CDB's interventions.
3. A notional resource envelope of one hundred and twelve million United States dollars (USD112 mn) has been estimated for the four-year period. Based on several factors that can adversely impact strategy implementation, CDB has deemed it prudent to consider various scenarios for the utilisation of the resource envelope.
4. In an effort to maximise its development impact, the design of the proposed Country Strategy is framed within the context of: (i) high-level policy dialogue with key policymakers and stakeholders about the critical development priorities; (ii) the country's financial/fiscal capabilities; and (iii) development partners' activities in the country. The proposed Strategy is consistent with CDB's strategic objectives of promoting broad-based economic growth and social development and enhancing environmental sustainability.
5. The Board of Directors is asked to approve CDB's Country Strategy for Barbados for 2015-18.



CARIBBEAN DEVELOPMENT BANK

BARBADOS COUNTRY STRATEGY PAPER

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Considered at the Two Hundred and Sixty-Fourth Meeting of the Board of Directors on December 11, 2014.

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CURRENCY EQUIVALENT

Dollars (\$) throughout refer to Barbados dollars (BBD) unless otherwise stated.

BBD1.00 = USD0.50

USD1.00 = BBD2.00

ABBREVIATIONS

%	-	per cent
BMCs	-	Borrowing Member Countries
BWA	-	Barbados Water Authority
CALC	-	Country Assessment of Living Conditions
CARTAC	-	Caribbean Regional Technical Assistance Centre
CDB	-	Caribbean Development Bank
CGA	-	Country Gender Assessment
CSP	-	Country Strategy Paper
DFATD	-	Department of Foreign Affairs Trade and Development
EE	-	Energy Efficiency
EU	-	European Union
GDP	-	Gross Domestic Product
GM	-	Gender Mainstreamed
GOBD	-	Government of Barbados
HDI	-	Human Development Index
HDR	-	Human Development Report
IDB	-	Inter-American Development Bank
IMF	-	International Monetary Fund
ISEE	-	Identification, Stabilisation, Enablement and Empowerment
kW	-	kilowatt
M&E	-	Monitoring and Evaluation
MDGs	-	Millennium Development Goals
MfDR	-	Managing for Development Results
mn	-	million
MTGDS	-	Medium-Term Growth and Development Strategy
PBL	-	Policy-Based Loan
PPAM/PCM	-	Public Policy Analysis and Management and Project Cycle Management
PSIA	-	Poverty and Social Impact Assessment
RE	-	Renewable Energy
RMF	-	Results Monitoring Framework
SDPAP	-	Sustainable Development Policy and Action Plan
SRLF	-	Student Revolving Loan Fund
TA	-	Technical Assistance
TVET	-	Technical and Vocational Education and Training
UNDP	-	United Nations Development Programme
USD	-	United States dollars
UWI	-	University of the West Indies
WB	-	World Bank

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COUNTRY DATA: BARBADOS

Item	2009	2010	2011	2012	2013
PER CAPITA GDP (current market prices; \$)	32,990	31,710	30,930	30,466	30,079
GROSS DOMESTIC PRODUCT (GDP)					
GDP at Current Market Prices (\$mn)	9,204.4	8,891.3	8,716.1	8,628.5	8,561.8
SECTORAL DISTRIBUTION OF CONSTANT GDP (%)					
Agriculture	4.8	4.4	4.2	4.3	4.4
Mining & Quarrying	0.5	0.5	0.5	0.5	0.4
Manufacturing	5.0	4.8	4.5	4.2	4.3
Utilities	4.1	4.1	4.1	4.1	4.1
Construction	7.4	6.6	6.9	6.7	5.8
Transport & Communication	9.6	9.6	9.6	9.8	10.0
Hotels & Restaurants	11.9	12.3	12.2	11.7	11.4
Wholesale & Retail Trade	21.8	22.2	22.1	22.2	22.5
Financial & Business Services	19.4	19.6	19.7	20.3	20.6
Government Services	15.6	15.8	16.1	16.4	16.6
GDP at constant 1974 Prices (\$ mn)	1,065.10	1,067.80	1,076.00	1,078.70	1,081.80
Annual rate of growth in GDP (%)	(4.1)	0.3	0.8	0.3	0.3
MONEY AND PRICES (\$ mn)					
Consumer prices (av. annual % change)	3.6	5.8	9.4	4.5	1.8
Money supply (M2; annual % change)	1.8	4.1	(2.3)	4.4	4.3
Total private sector credit (annual % change)	(0.4)	1.5	1.0	0.5	(2.0)
CENTRAL GOVERNMENT FINANCES (\$ mn)					
Current Revenues	2,323.7	2,278.9	2,550.5	2,449.9	2,220.4
Current Grants	0.0	0.0	0.0	0.0	0.0
Current Expenditures	2,809.9	2,919.8	2,816.7	3,076.5	3,121.3
Current Account Surplus/ (Deficit)	(486.2)	(640.9)	(266.2)	(626.6)	(900.9)
Capital Revenue and Grants	0.0	0.0	0.0	0.0	0.0
Capital Expenditure and Net Lending	178.3	134.7	118.2	121.1	170.4
Overall Surplus/ (Deficit)	(664.5)	(775.6)	(384.4)	(747.7)	(1,071.3)
Overall Surplus/ (Deficit) (% of GDP)	(7.2)	(8.7)	(4.4)	(8.7)	(12.5)
BALANCE OF PAYMENTS (USD mn)					
Total inflows	2,255.8	2,401.9	2,364.2	2,218.0	2,267.4
Total outflows	2,565.9	2,660.5	2,922.6	2,620.0	2,663.6
Current Account Balance	(310.2)	(258.6)	(558.4)	(402.0)	(396.2)
Capital and Financial Account	365.9	256.1	962.4	151.9	191.8
Net errors and omissions	11.4	(24.3)	(408.4)	271.5	48.6
Overall Balance	67.1	(26.9)	(4.5)	21.5	(156.8)
Change in Reserves () = Increase	(92.30)	150.8	265.8	148.75	328.05
TOTAL PUBLIC DEBT (USD mn)					
Total public debt	2,900.3	3,190.1	3,398.4	3,620.9	4,126.6
Domestic debt outstanding	1,702.7	1,830.7	2,016.1	2,295.9	2,691.0
External debt outstanding	1,197.7	1,359.4	1,382.3	1,325.0	1,435.7
Total interest payment as % of current revenue	18.8	22.3	20.7	23.2	27.4
AVERAGE EXCHANGE RATE					
Dollar(s) per US dollar	2.0	2.0	2.0	2.0	2.0

Data for 2013 are provisional.

COUNTRY DATA: BARBADOS

Item	2009	2010	2011	2012	2013
POPULATION					
Mid-Year Population ('000)	279.0	280.4	281.8	283.2	284.6
Population Growth Rate (%)	1.3	0.5	0.5	0.5	0.5
Crude Birth Rate (per 1,000 people)	12.9	12.9	12.8	12.7	...
Crude Death Rate (per 1,000 people)	9.4	9.3	9.2	9.2	...
Infant Mortality Rate (per 1,000 live births)	13.8	13.6	13.6	13.5	13.3
EDUCATION					
Net School Enrollment Ratio (%)					
Primary	94.2	96.0	97.1	...	...
Secondary	83.1	84.8	89.7	...	...
Pupil-Teacher Ratio					
Primary	14.1	13.0	13.1	...	...
Secondary	14.9	14.0	...	...	...
LABOUR FORCE					
Unemployment Rate (%)	10.0	10.5	11.2	11.5	11.6
Male	10.1	10.9	9.8	10.9	...
Female	9.9	10.6	12.5	12.2	...
Participation Rate (%)	67.0	66.6	67.6	66.2	...
Male	72.3	71.7	72.7	71.9	...
Female	62.3	61.9	63.6	61.1	...
Youth Unemployment Rate (%)	22.8	24.7	25.7	26.4	...

INDICATORS OF HUMAN DEVELOPMENT

Item	1980	1990	2000	2010	2012
HEALTH AND EDUCATION					
Life Expectancy at Birth (years)	72.3	74.9	75.8	77.7	75.1
Male	70.5	72.9	72.7	72.4	72.7
Female	75.5	77.4	78.6	77.2	77.5
Dependency Ratio	0.67	0.56	0.50	0.40	...
Male	0.67	0.55	0.48	...	...
Female	0.67	0.57	0.51	...	...
Adult Literacy Rate (%)	99.00	99.00	99.6	...	...
Male	...	99.00	99.5	...	...
Female	...	99.00	99.6	...	...
Human Development Index	0.706	0.760	0.790	0.823	0.825
HOUSING AND ENVIRONMENT					
Households with piped water (%)	82.4	95.8	97.0	97.0	...
Households with access to flush toilets (%)	43.6	66.3	81.8	91.3	...
Households with electricity (%)	83.0	92.6	96.5	97.8	...
Disaster risk reduction progress (1-5 scale, 5=best)	...	...	...	4	...

... not available

Data as at October 22, 2014

GENDER MARKER SUMMARY

Gender Marker	Analysis	Data	Engagement	Response	Score	Code
	1	1	0.5	1	3.5	GM ^{1/}

^{1/} GM – Gender Mainstreamed: Country Strategy has potential to contribute significantly to gender equality, Appendix 1.1 provides details.

EXECUTIVE SUMMARY

This Country Strategy Paper (CSP) covers the period 2015-18. It sets out the strategic direction for the Caribbean Development Bank's (CDB) collaboration with Barbados over the strategy period and defines the parameters of its support. The proposed Country Strategy responds to Barbados' development priorities and is aligned with CDB's strategic objectives of fostering inclusive social development; promoting broad-based economic growth; and environmental sustainability.

Country Context

2. Barbados' development achievements since independence in 1966 have been impressive. Human Development Indicators rank amongst the highest in the Caribbean. Poverty is not endemic and commendable progress has been made in achieving the Millennium Development Goals (MDGs), as well as the Caribbean-specific MDGs. On the economic front, years of prudent macroeconomic management, underpinned by strong institutions and a supportive global environment, enabled Barbados to achieve relatively steady growth for much of the latter 1990s and up until the start of the Great Recession in 2008. However, the economy was buffeted by the global crisis and macroeconomic fundamentals have become progressively weaker since 2009. Politically, the country has a laudable reputation for having a strong, mature and stable democracy. Environmentally, much has been achieved in mainstreaming environmental considerations in national development planning.

Key Development Challenges and Opportunities

3. Long-standing challenges, such as those associated with being a small open economy, are compounded by new ones such as acute economic stagnation; weak competitiveness; fiscal instability; persistent inequality; and the impacts of climate change. However, against this backdrop, there are opportunities for the country to maximise its development potential in areas such as renewable energy (RE). Accordingly, the key development priorities, as CDB sees them, are the transformative shifts in policies, practices and institutions that are required to underpin a new development paradigm that: (i) delivers higher, more inclusive job-led growth and competitiveness; (ii) entrenches fiscal and debt sustainability; (iii) preserves hard-won social gains, especially in education and poverty reduction; and (iv) promotes environmental sustainability.

Caribbean Development Bank in Barbados and Lessons Learnt

4. CDB's engagement with Barbados spans more than four decades. CDB has approved a total of 85 loans to Barbados amounting to 428.9 million (mn) United States dollars (USD428.9), of which the cumulative disbursements were USD324 mn during the period 1970-2013. CDB's experience has been quite extensive, covering all sectors. At end-September 2014, Barbados accounted for 9.1 per cent (%) of CDB's total outstanding loans, ranking it as the Bank's third largest borrower. Lessons from previous country strategies with Barbados suggest that the following are imperatives to maximising CDB's development impact: (i) a pragmatic approach to strategy design; (ii) active assessment of in-country capacity needs; and (iii) strong collaboration with other development partners.

Country Strategy 2015-18: Proposed Pillars and Expected Outcomes

5. CDB's support focuses on areas that have been identified as critical priorities for the country. Accordingly, the proposed Country Strategy rests on three pillars: (i) macroeconomic governance and institutional development; (ii) competitiveness and productivity; and (iii) green, inclusive development. The indicative programme of assistance has been designed to achieve the following outcomes:

(ii)

- (a) strengthened fiscal sustainability and supporting institutions;
- (b) enhanced enabling environment to strengthen competitiveness and productivity;
- (c) strengthened resilience to climate change and improved disaster risk management;
- (d) improved quality of climate resilient infrastructure;
- (e) increased access to tertiary education opportunities; and
- (f) enhanced social development.

The proposed programme will be delivered through a mix of direct financing and technical assistance (TA) that complements the efforts of other development partners. Gender equality, as well as energy efficiency (EE) considerations, will be mainstreamed in CDB's interventions.

Resource Envelope

6. An indicative resource envelope of USD112 mn has been proposed to support the indicative programme of assistance. Utilisation of the resource envelope is envisioned under three scenarios based on different assumptions about the country's fiscal outturns over the medium term.

Results Monitoring

7. Programme accomplishments and sector outcomes will be monitored within a Results Monitoring Framework (RMF), which will identify the country's development objectives to which each of CDB's indicative interventions is aligned; sector outcomes to which proposed interventions are expected to contribute; and the performance indicators against which the results of the interventions will be measured. A mid-term review will be undertaken in 2016 to assess progress towards meeting expected outcomes and review the resource envelope. An end-of-strategy review will also be undertaken to assess overall performance and impact. The Country Strategy is designed with flexibility to allow for any adjustment in the indicative programme based on the findings of the mid-term review. Monitoring will be done by both CDB and the country's authorities.

Risks and Mitigating Actions

8. The main risks that may affect the execution of the proposed Country Strategy are: (i) weak public finances and a slower-than-anticipated global recovery (macroeconomic risk); (ii) institutional and human capacity constraints to effectively implement the strategy (implementation risk); (iii) insufficient buy-in for the proposed programme from all stakeholders (country ownership risk); and natural hazards (exogenous risk). CDB has identified measures to help mitigate these risks, including: policy advice and support; capacity building; engagement of development partners; and wide stakeholder consultations; and quick response to address the socioeconomic effects of natural hazards.

1. COUNTRY CONTEXT

Overview

1.01 Barbados' development achievements since independence in 1966 have been impressive. Human development indicators rank amongst the highest in the Caribbean, reflecting the country's expansive social and physical infrastructure. Poverty is not endemic and commendable progress has been made in achieving the MDGs, as well as the Caribbean-specific MDGs. On the economic front, years of prudent macroeconomic management, underpinned by strong institutions and a supportive global environment, enabled Barbados to achieve relatively steady growth for much of the latter 1990s and up until the start of the Great Recession in 2008. However, the economy was buffeted by the global crisis and macroeconomic fundamentals have become progressively weaker since 2009. Politically, the country has a laudable reputation for having a strong, mature and stable democracy. Environmentally, much has been achieved in mainstreaming environmental considerations in national development planning. Contemporary Barbados faces a myriad of challenges, however opportunities also exist. Long-standing challenges such as those associated with being a small open economy are compounded by new ones such as acute economic stagnation, weak competitiveness, fiscal instability, social inequities and climate change. Against these are opportunities for the country to maximise its development potential in areas such as RE.

Macro-Social Context since the Preparation of the 2010-13 Country Strategy

Macroeconomic Performance and Prospects

1.02 The macroeconomic situation transitioned from delicate to dire over the period 2010-13. At preparation of the 2010 Strategy, economic growth had turned positive (0.2%), following a contraction of 3.7% in 2009. The unemployment rate was at a decade high of 10.5% at end-2010, reflecting significant job losses in the key production sectors, especially construction. The fiscal deficit as a percentage of Gross Domestic Product (GDP), though high at 7.9%, was an improvement over the 8.3% deficit in 2009. Public debt, which had been on a steady increase since 2007, reached 92.4% of GDP at end-2010, 15.1 percentage points above the ratio in 2009. Though external performance had begun to falter, international reserves were deemed adequate at 18.2 weeks of total imports. The macroeconomic outlook at the time was assessed as dim, with risks tilted to the downside. In 2011, economic activity remained subdued, constraining employment creation and curtailing public revenue. The fiscal deficit narrowed, largely because of a reduction in capital expenditure, but public debt as a ratio of GDP increased further. By end-2012, the economy had taken a turn for the worse: growth stalled; unemployment leaped further; the fiscal deficit and debt as ratios of GDP rose significantly; and the international reserves tumbled.

1.03 In 2013 the economic challenges became more acute. The economy contracted by 0.2%; unemployment increased to 11.2%; the fiscal deficit expanded to 8.5% of GDP; public debt climbed further to 97.6% of GDP; and international reserves fell to a decade low of 15 weeks of total imports. The economic outturns necessitated strong policy action, which saw the implementation of a 19-month structural adjustment programme that commenced in October 2013. At end-2013, the short-term economic prognosis was assessed by CDB as dull, with fiscal austerity and a slow recovery in the economies of Barbados' source markets for tourism and investment projected to constrain economic growth.

1.04 For the first nine months of 2014, economic output was flat and unemployment rose as the private sector continued to shed jobs, which was compounded by Government's retrenchment programme. The unemployment rate was estimated at 13.2% over the four quarters ending June 2014.^{2/} The fiscal deficit

^{2/} The latest period for which data are available.

remained at an unsustainable level (12.5% of GDP), pushing gross debt to 109.4% of GDP at end-September 2014, 4.2 percentage points above the ratio one year earlier.

1.05 At end-September 2014, the short-term prospects were assessed as weak. Economic activity in 2014 is likely to be tepid at best, with unemployment remaining elevated as Government's retrenchment programme continues. Short-term risks are still tilted to the downside and may intensify should the economic recovery of Barbados' main trading partners be slower than anticipated. The tourism sector in particular faces headwinds, notwithstanding the entrance of Sandals Resorts to the market and additional airlift. The key challenge to the sector relates to faltering economic growth (in the latter part of 2014) in the United Kingdom, Barbados' largest source market for tourists. Regarding public finances, the deficit is projected to narrow over the short term on the assumption that the fiscal adjustment programme will be kept on track.

1.06 Over the medium term, growth is expected to pick up on the premise that tourism performance will strengthen with a firmer recovery of the economies of Barbados' main trading partners. Additionally, growth-promotion measures (including enhanced tourism marketing) if implemented as planned, coupled with product enhancements, are expected to spur medium-term growth. On the fiscal front, accrued dividends from adjustment and reforms should further strengthen public finances. Overall, Barbados' economic outlook could be significantly affected by external and internal shocks. There is high uncertainty as to how fast the economies of Barbados' main trading partners will take to fully recover. Should the recovery be slower than presently anticipated, growth could be squeezed further, external pressures heightened and fiscal consolidation undermined. Appendix 1.2 presents projections for key macroeconomic indicators.

Social Context

1.07 Since 2010, Barbados' development has been defined by episodes of improvement and decline. The decline has been influenced by the worsening economic situation, partly as a result of challenges posed by an undiversified economy and weak performance in tourism. This notwithstanding, the country recorded a number of social achievements in the midst of economic challenges. Among the achievements, Barbados was ranked 47th out of 187 countries by the United Nations Development Programme (UNDP) in its 2011 Human Development Report (HDR). Despite slipping from the previous rank of 42nd out of 162 countries (HDR, 2010), Barbados, up to that time, remained the only country within the Caribbean to be ranked in the Very High Human Development category. The 2013 HDR revealed that Barbados had improved its performance and was ranked 38th out of 187 countries. However, as a consequence of ongoing socio-economic challenges, HDR 2014 determined that Barbados' rank had slipped to 59 out of 187 countries, relegating it to the High Human Development category. Overall, Barbados' human development has not been accompanied by a concomitant reduction in gender inequality. While the average Gender Inequality Index for countries at the "very high" human development level was 0.193 in 2012, Barbados' was 0.343. In the same year, Barbados was ranked 27 out of 136 countries with a score of 0.730.^{3/}

^{3/} World Economic Forum (2013): *Global Gender Gap Index*. A total of 136 countries were ranked.

1.08 Against the country's achievements, social imbalances have increased. Barbados recorded poverty and indigence levels of 19.3^{4/} and 9.1%, respectively, and an inequality level of 0.47 based on the 2010 Country Assessment of Living Conditions (CALC).^{5/} Poverty is concentrated among households headed by women, which account for 47.5% of all households. The rate of poverty in female-headed households is 19.4%, compared with 11.5% in male-headed households and 15% in all households. Poor female-headed households also have the highest dependency ratio, with 74.8% non-earners per household, as compared with 68.6% in poor male-headed households and 49.9% in the total population. Vulnerable groups in society faced increasing risks according to the findings of the 2010 Poverty and Social Impact Assessment (PSIA).^{6/} More recently, budgetary pressures have led to the downsizing of social sector investment in the critical area of tertiary education with concerns about further withdrawal of Government support in other areas of the social sector as Government re-examines and reformulates its engagement in this sector as part of its fiscal adjustment programme.

1.09 The re-examination and reformulation of Government's interventions offer the opportunity for improved targeting with respect to the needs of the poor and indigent, together with overall greater efficiencies and effectiveness in its interventions. The social consequences of the crisis have been enormous. Growing concerns about social cohesion and the erosion of social values as a result of the increased economic and social pressures, are beginning to emerge. Citizen security is becoming a major concern, as is the weakening of the social partnership that has been an integral part of social stability and good governance for more than two decades. Specific analysis on the gender dimensions of the crisis is yet to emerge but the findings of the Country Gender Assessment (CGA, 2014)^{7/} suggest that within the context of lower participation rates in the labour force and higher unemployment rates for women, especially in the tourism and services sectors where women predominate the labour market, together with higher levels of dependency and poverty in female-headed households, the crisis is having a disproportionate adverse economic impact on women compared with men.

Key Development Priorities

1.10 At this juncture in Barbados' history, the key development priorities are the transformative shifts in policies, practices and institutions that are required to underpin a new development paradigm that: (i) delivers higher, more inclusive job-led growth and competitiveness; (ii) entrenches fiscal and debt sustainability; (iii) preserves hard-won social gains especially in education, as well as poverty reduction; and (iv) promotes environmental sustainability.

^{4/} Although not strictly comparable with the earlier poverty study undertaken in Barbados (1996/97), which showed a poverty level of 13.9%, the CALC findings serve to demonstrate an increase in the poverty level and highlight causality through the triangulated methodological approach to the study.

^{5/} CDB supported the Government of Barbados (GOBD) in undertaking CALC, launched in mid-April, 2009. The study was supported by the Cabinet-approved National Assessment Team, comprising multi-sectoral composition. CALC consists of the following components: Survey of Living Conditions/Household Budgetary Survey, Institutional Assessment, Macro Social and Economic Assessment, and the Participating Poverty Assessment. CALC further revealed the following: Average per capita poverty line: \$7,861 and average per capita indigence line: \$3,970.

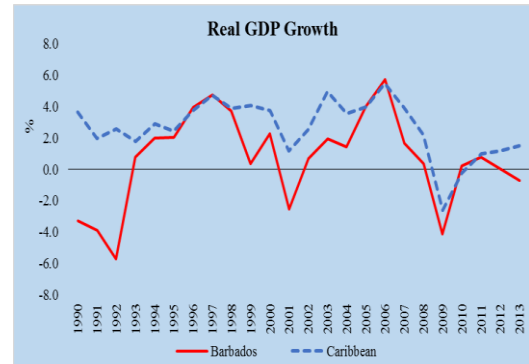
^{6/} Social Implications of the Global Economic Crisis on Living Conditions in Barbados (Draft Final Report, 2010:22). Commissioned by UNDP and prepared by Lynette Joseph-Browne.

^{7/} The CGA (the first for Barbados) was conducted by CDB in collaboration with GOBD using the consultancy services of Rawwida Baksh Associates.

Achieving Stronger Growth and Competitiveness

1.11 Barbados' development model, which has traditionally served the country well, appears to be no longer delivering the growth and competitiveness that it once did. Figure 1.1 shows that since 1990 Barbados' real economic growth has been persistently below that of the Caribbean's average with the gap widening in recent years. Such underperformance is explained by a myriad of factors, a critical one being weak competitiveness in key export sectors. Though Barbados tops the Caribbean's list on the Global Competitiveness Index in 2014-15, ranking 55 out of 144 countries, the business environment is beset by numerous challenges that undermine firms' competitiveness and, by extension, the country's development potential.

FIGURE 1.1: REAL GROSS DOMESTIC PRODUCT GROWTH



Source: CDB staff calculations.

1.12 Based on the findings of a Compete Caribbean Assessment,^{8/} the critical priorities to strengthen private sector competitiveness are: (i) improving very weak business facilitation practices; (ii) reducing government expenditure; (iii) strengthening governance and transparency in decision-making; (iv) accountability of management; (v) removal of antiquated trade protections; (vi) reforming the public sector to meet modern economic demands; (vii) improving strategic planning and leadership; (viii) implementing pay for productivity systems; (ix) improving customer service attitudes; (x) lowering taxation and knock-on costs of doing business; (xi) removing exchange controls; (xii) eliminating uncompetitive labour practices and laws; (xiii) encouraging foreign direct investment; and (xiv) embracing international skills. Most of these challenges point to a weak enabling environment for business development. Inadequate use of technology as well as cumbersome procedures in key ministries and departments (for example the Ministry of Commerce, Industry and Small Business Development and the Immigration Department) impede the efficiency with which they interface with investors/businesses. Barbados' slip in the World Bank's (WB) 2015 Doing Business Rankings to 106 relative to 103 in 2014, underpinned by underperformances in registering property, enforcing contracts, paying taxes, and dealing with construction permits, all point to the need to seriously address key aspects of business facilitation (Appendix 1.3).

1.13 Regarding sectoral competitiveness constraints in the tourism sector, infrastructure and quality gaps exist, while in the manufacturing sector, operating and input costs are prohibitive. In the agricultural sector, limited acreage for cultivation, outdated technology, weak institutional/policy framework, inadequate physical infrastructure and ineffective response to the substantial problem of praedial larceny thwart production. The international business sector is challenged by restrictive global initiatives. Infrastructure (such as the road network and water supply), which is essential for facilitating competitiveness and economic growth, is not only aging but is experiencing capacity constraints. In particular, the road network (which is an important enabler of a country's economic and social activities) whilst extensive in terms of coverage, faces several challenges. These include: (i) the capacity of the existing network to accommodate increasing traffic flows; (ii) the increasing maintenance burden due to the aging road and bridge infrastructure; (iii) relatively high incidents of road accidents; and (iv) flash flooding during heavy rainfall events. In the water sector, non-revenue water is a major concern for the Barbados Water Authority (BWA), currently estimated at approximately 50% and their energy bill representing approximately 20% of their operational costs.

^{8/} Compete Caribbean Private Sector Assessment Report for Barbados, 2012.

1.14 Enhancing competitiveness is fundamental to generating growth on a sustained basis in sectors that can create quality jobs, decrease unemployment and under-employment, reduce poverty and transform the economy. This will require, among other measures, developing new growth sectors, increasing the value-added of exports, improving the business climate, retraining/re-skilling the workforce, mainstreaming technology and innovation and strengthening institutions.

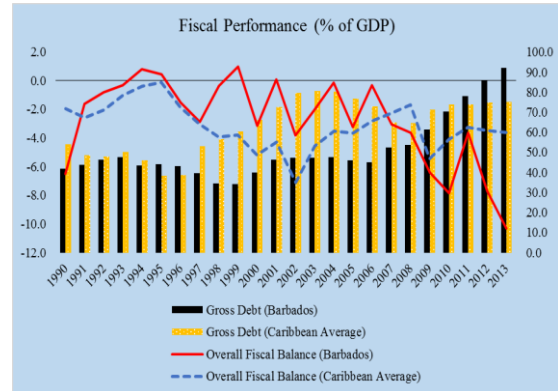
Entrenching Fiscal Sustainability

1.15 Public finances have deteriorated markedly in recent years, with the fiscal deficit and gross debt as percentages of GDP at end-2013 well above the Caribbean averages (Figure 1.2). The unsustainable situation necessitated large-scale fiscal consolidation measures, which got underway during the fourth quarter of 2013. Though the measures are a step in the right direction, the magnitude of the fiscal correction appears insufficient given the scale of the fiscal and debt problem (fiscal deficit and gross debt estimated at 12.5% and 109.4% of GDP, respectively, at the end of the fiscal year 2013/14). It is imperative and urgent that fiscal consolidation is deepened so that it gives more emphasis to reforms of public enterprises and social expenditure. Decisive measures are needed to overhaul the social safety net architecture which has become too expensive to upkeep in its current form. Better targeting and administration of social benefits are imperative to reduce transfers and subsidies and contingent liabilities. Additionally, the consolidation programme should be strengthened to: (i) infuse expenditure discipline through mechanisms such as fiscal rules and fiscal responsibility frameworks (for which appropriate legislative arrangements will have to be worked out); (ii) improve fiscal institutions to better support fiscal policy and management (particularly, but not exclusively, strengthening the budget formulation and execution architecture); and (iii) promote strategic government involvement in the economy.

Preserving Hard-won Social Gains

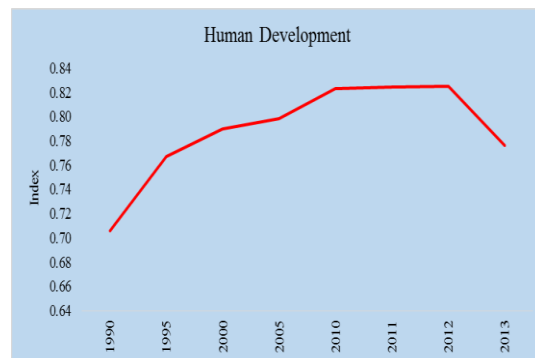
1.16 Despite significant advances in education, health care, housing and measures to reduce vulnerability to poverty and enhance social equity, weaknesses exist and hard-won social gains are at risk of unravelling. As Figure 1.3 shows, following a steady rise during 1990-2005, Barbados' Human Development Index (HDI) value plateaued around 0.82 during 2010-12, dipping in 2013. Education, which is a key component of human development, has become vulnerable to setbacks with the recent implementation of a new policy in the financing of tertiary education. The policy, which requires students to meet 20% of the economic cost at the University of the West Indies (UWI), presents the most urgent sector priority. The sudden introduction of the policy left many of those wishing to pursue further studies at UWI financially unprepared to do so. Students, particularly from poor socio-economic backgrounds, are unable to enroll or progress towards graduation despite satisfying matriculation requirements or successfully

FIGURE 1.2: FISCAL PERFORMANCE



Source: CDB staff calculations.

FIGURE 1.3: HUMAN DEVELOPMENT



Source: CDB staff calculations.

completing courses. Generally, gross enrollment^{9/} in tertiary education, which approximates 55%, has declined, with a precipitous 28% reduction in students enrolled in the 2014-15 academic year. Access to affordable financing has therefore emerged as the main challenge to maintaining the high level of tertiary education participation, retention and completion. Complementary expansion of relevant post-secondary Technical and Vocational Education and Training (TVET) opportunities that befit students' career interests and enhance employability of graduates continues to be a need. Barbados' continued economic competitiveness and social cohesion rest with addressing these structural deficits in its human resource development architecture. More broadly, a social sector assessment found that the delivery of social services is ad hoc and fragmented and there is also duplication, as well as inefficient use of resources. In the context of weak public finances, another urgent priority for GOBD is to protect hard-won social gains through a focussed, cohesive and systematic social policy framework.

Promoting Environmental Sustainability

1.17 Environmental challenges facing Barbados necessitate the implementation of climate-smart policies to build resilience, safeguard environmental sustainability and maximise the country's green development potential. The key challenges include: degradation of coastal and marine ecosystems; coastal erosion; water resource management and quality; high cost and inefficient use of energy; land degradation; inadequacy and reliability of fresh water supply and increased vulnerability to natural hazards and climate change. In 2004, Barbados formulated a Sustainable Development Policy and Action Plan (SDPAP), which addresses the key issues relating to: fresh water resources; transportation; agriculture; terrestrial biodiversity; fisheries; energy; the built environment; land resources; and natural resources. The SDPAP has been complemented by a Green Economy Scoping Study Synthesis Report (2012), which provides far-reaching policy, investment, and governance imperatives for integrating environmental considerations into the country's social and economic fabric. The pursuit of the green economy approach to development necessitates a focus on key productive sectors and thematic areas including RE, tourism, agriculture and ecosystems management in order to exploit opportunities for investment, growth and job creation.

1.18 The need to build capacity to respond to the effects of climate change and disaster risk is of critical importance particularly in the coastal zone, which comprises a significant proportion of the country's residential, commercial and industrial and road assets. GOBD has developed an Integrated Coastal Zone Management Policy, which has provided the context for a programme of building coastal infrastructure including: shoreline stabilisation; restoration of coastal habitats; improvement of public coastal access; and institutional strengthening for coastal management. Some of the projects on which GOBD has embarked include works at Crane Beach, Holetown, Rockley to Coconut Court waterfront and Tent Bay. In line with the coastal zone management objective of ensuring sustainable use of the coastal management area, additional coastal mitigation interventions are required to further halt degradation and improve the status of coastal and marine resources and the functions they perform.

1.19 The need to address land degradation in the Scotland District is another area of concern. Over the years, the area has experienced accelerated soil erosion resulting from a combination of natural and man-made factors, chief amongst them is inadequate land use practices. These problems have resulted in ongoing property damage, reduced agricultural productivity and pollution of the coastal and marine environment. In spite of interventions since 1997 to arrest the problem, the issue remains a serious one in need of urgent attention.

^{9/} Number of students enrolled in a given level of education, regardless of age, expressed as a percentage of the official school-age population corresponding to the same level of education. For the tertiary level, the population used is the 5-year age group starting from the official secondary school graduation age.

1.20 GOBD is committed to introducing clean energy technologies and energy conservation as a means of reducing the dependency on expensive fossil fuels. Although oil prices have dropped to their lowest levels in years to below USD80 a barrel in recent times – fossil fuel purchases still account for a significant portion of imports. Approximately 90% of the electricity produced is generated from fuel oil. GOBD is also interested in ensuring the security and stability of the energy supply, maximising EE and achieving environmental sustainability. The National Strategic Plan of Barbados for 2006-2025 was formulated to help eliminate the country's reliance on fossil fuel, with a specific focus on increasing the number of household solar water heaters by 50% by the end of 2025. In 2012, GOBD also made commitments under the Sustainable Energy for All Initiative. The enabling environment for solar photovoltaic penetration has been set, with two main programmes being announced by the electricity company, effective September 2014, namely the “buy all sell all” programme for consumer electricity generation over 2 kilowatts (kW); and the “sale of excess” for generation under 2kW.

1.21 So far, several projects have been implemented in fulfilment of the objectives of the Strategic Plan, including an Energy Smart Fund, which was designed to provide financial and technical support to RE and EE. However, very little attention has been paid to the use of RE and the promotion of EE in the education sector. Based on a Building Condition Survey conducted in 2012, GOBD has now embarked on a “Greening of Public Educational Institutions Initiative” as part of a wider school rehabilitation and reconstruction programme. This initiative involves two components: (i) a feasibility study and the development of a blueprint for the greening of public educational institutions involving public primary and secondary schools; and (ii) an assessment of the institutional capacity of the Samuel Jackman Prescod Polytechnic to deliver training in alternative energy, EE and green energy development at various certification levels and the development of relevant programmes in green sustainable energy solutions.



Government's Medium-term Development Strategy

1.22 Barbados' Medium-term Growth and Development Strategy (MTGDS) 2013-2020 has an overriding objective for the country to become “*a fully developed and people-centred society through new development pathways.*” It identifies four strategic goals required to achieve the objective: (i) return the Barbadian economy to a sustainable growth rate of 3% by 2017 and 4.5% by 2020 while maintaining macroeconomic stability; (ii) facilitate broad-based adjustments and reforms in the economy; (iii) improve social and human development; and (iv) enhance environmental sustainability in the context of the green economy. Table 1.1 outlines the Government's priorities corresponding to each goal.

Caribbean Development Bank's Assessment of Government's Medium-Term Strategy

1.23 Barbados' MTGDS articulates well-framed development goals and priorities for the country over the medium-to-long term. There is a welcomed acknowledgement of the need for innovation and economic transformation to change the development trajectory of the country. Additionally, there is an encouraging recognition of the need to synchronise socioeconomic development with environmental sustainability and, in this regard, the focus on promoting green growth through climate-smart initiatives is praiseworthy. Furthermore, there is an appreciation of the importance of effective strategy implementation, monitoring and evaluation (M&E) and the proposal to establish an Implementation and Oversight Unit is commendable. It is important for GOBD to sequence implementation in a manner that is coherent and complementary so as to limit tradeoffs and permit feasible cohesion in the pursuit of its goals. The MTGDS would have benefitted from a robust RMF to monitor and assess its development impact. Overall, while the MTGDS is a comprehensive one and though there is much emphasis on building competitiveness, what is lacking is recognition of the importance of a strategic supporting mechanism to guide the design and implementation of competitive-enhancing policies in a holistic, cohesive and results-focused manner.

TABLE 1.1: SUMMARY OF THE MEDIUM-TERM GROWTH AND DEVELOPMENT STRATEGY, 2013-2020

Goals 	Sustainable Growth and Macroeconomic Stability	Broad-based Adjustment and Reforms	Social and Human Development	Environmental Sustainability
Priorities 	<ul style="list-style-type: none"> ✓ Reduce the fiscal deficit to below 2% by 2020/21. ✓ Achieve a more comfortable level of debt sustainability. ✓ Strengthen the Net International Reserves position to at least six months or 24 weeks. ✓ Strengthen bank and financial sector soundness. ✓ Reduce the unemployment rate to single digits. ✓ Increase the export of services and goods. ✓ Increase food production and nutritional security. ✓ Expand and accelerate public and private investments. ✓ Reform the productive sectors and increase supply capacity. 	<ul style="list-style-type: none"> ✓ Reduce the cost of doing business and the cost of living. ✓ Enhance business facilitation. ✓ Enhance international competitiveness, national productivity, efficiency and service excellence. ✓ Develop the micro, small and medium-sized business sector and entrepreneurship. ✓ Ensure more modern and efficient public and private sector institutions. ✓ Build the human and social capital base. ✓ Infrastructure upgrade and modernisation. 	<ul style="list-style-type: none"> ✓ Reduce the level of Poverty. ✓ Preserve a strong social safety net. 	<ul style="list-style-type: none"> ✓ Reduce dependence on fossil fuels. ✓ Ensure environmental sustainability. ✓ Combat climate change and build resilience to natural and man-made hazards. ✓ Enhance research and innovation through science and technology.

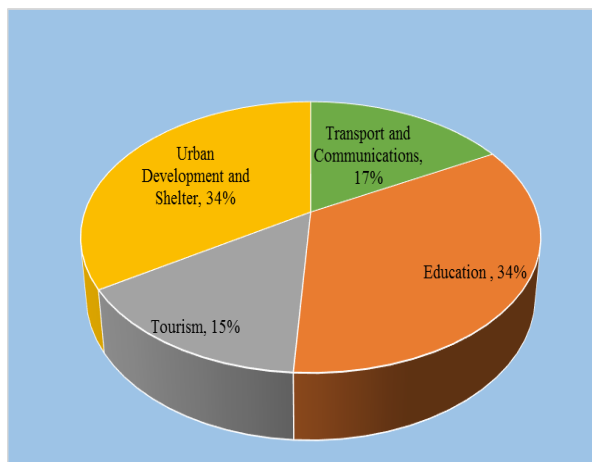
Source: Extrapolated from Barbados' MTGDS 2013-2020.

2. CURRENT PORTFOLIO, REVIEW OF COUNTRY STRATEGY 2010-13 AND LESSONS LEARNT

Current Portfolio

2.01 During the period 1970-2013 CDB has approved a total of 85 loans to Barbados, amounting to USD428.9 mn, of which the cumulative disbursements were USD324 mn. Net^{10/} approvals represented 11.9% of total approvals to CDB's Borrowing Member Countries (BMCs) at end-2013. As at December 31, 2013, Barbados' country portfolio consisted of six projects with a total approved value of USD195.7 mn, representing the largest share of CDB's portfolio at 20%. Two sectors (Education and Urban Development and Shelter) with two projects each, accounted for the largest share of the portfolio (Figure 2.1). The median age of Barbados' portfolio of projects under implementation was 4.3 years, compared with CDB's overall portfolio age of 3.6 years. This is largely because two projects^{11/} in the portfolio are over 10 years old. Barbados' portfolio was rated as *Satisfactory* in 2013. Historically, Barbados has been a net user of CDB's resources; however, owing to a tightening of the country's borrowing constraints, net resource flows to Barbados were negative, averaging *negative* USD8.7 mn during 2011-13. At end-September 2014, Barbados accounted for 9.1% of CDB's total outstanding loans, ranking it as CDB's third largest borrower.

FIGURE 2.1: SECTORAL DISTRIBUTION OF PROJECTS UNDER IMPLEMENTATION (DECEMBER 31, 2013)



Source: CDB staff calculations

Review of Country Strategy 2010-13

2.02 Predicated on the development priorities identified, the previous Country Strategy (2010-13) was designed to achieve four outcomes: (i) macroeconomic stability; (ii) renewed and enhanced physical and environmental infrastructure; (iii) a more competitive productive sector; and (iv) enhanced social development. Gender equity was a cross-cutting theme of the Strategy. In terms of development impact, the End-of-Strategy Review found that the RMF underpinning the Strategy was deficient (having pre-dated extensive Bank-wide Managing for Development Results [MfDR] training), thereby inhibiting a clinical assessment of whether outcomes have been realised and development results achieved. Nonetheless, all of the seven projects (two TA loans included) approved during the Country Strategy period are relevant and are intended to meet important development needs of Barbados. While there was dialogue with other development partners, coordination issues hindered more active donor collaboration.

2.03 With respect to promoting macroeconomic stability, a Policy-Based Loan (PBL) was approved and fully disbursed in 2010, which provided much needed budget support at a critical time for GOBD. The PBL helped to cushion the effects of economic downturn in 2010/11. Nonetheless, in retrospect, the reforms that the PBL supported did not go far enough to infuse expenditure discipline, which was particularly needed at a time when public revenue was being buffeted by a weak economy. The project to establish a Central Revenue Authority (approved in 2012) is a key pillar of GOBD's fiscal reform strategy

^{10/} Net of cancellations.

^{11/} Education Sector Enhancement (15.1 years) and Urban Rehabilitation (12.7 years).

to systematically improve revenue administration and collection. The Barbados Revenue Authority became operational in April 2014 and it is noteworthy that the consultancy support being funded by CDB is aiding to improve skills and systems at the executing agency. In this regard, CDB is contributing to institutional strengthening.

2.04 Regarding the second expected outcome, a project to reduce storm-water induced flood risk in Speightstown was approved in 2013 and once implemented, will go a long way towards enhancing the resilience of Barbados' socioeconomic infrastructure to natural hazards. Additionally, the socioeconomic importance of the 2013-approved project to modernise LIAT's fleet of aircrafts is well appreciated (GOBD was one of four borrowers). An agricultural project was approved in 2012, which aims to assist in identifying options and best approaches in providing a sustainable irrigation and drainage system for the agricultural land at River Plantation. In this regard, the project, which will form the basis for strategic capital investments, is geared at enhancing the country's agricultural output and productivity and, by extension, contributes to a more competitive productive sector, which was the third expected outcome. Furthermore, an education and a housing project were approved in 2010 and though implementation has been slow, the projects are squarely aligned to the country's development objective to improve human and social capital and, as such, are consistent with the fourth expected outcome: enhanced social development.

Lessons Learnt

2.05 Based on the performance of the previous Country Strategy, four key lessons have emerged, which have informed the design of the new Strategy:

- (a) It is important that CDB's programme of assistance, while ensuring alignment and country ownership, be pragmatic so as to reduce the risk of it being exposed to the financial, political, administrative and institutional constraints of the country. It is also essential that the design of the Country Strategy has built-in flexibility to allow for changing socioeconomic circumstances.
- (b) Without a strong RMF the performance of the Country Strategy and, by extension, CDB's development contribution cannot be properly assessed. A Results Framework must have a clear articulation of Strategy objectives and sector outcomes, a logical chain linking CDB's interventions to the Country Strategy objectives, and *Specific, Measurable, Achievable, Realistic and Time-bound* performance targets to be achieved in a clearly-defined time frame, whether within or outside of the strategy period.
- (c) Capacity building needs of executing agencies should be continuously assessed in order to facilitate an efficient implementation of the Country Strategy and the delivery of its expected outcomes.
- (d) Strong donor coordination is important to increase the likelihood of achieving meaningful development results.

3. CARIBBEAN DEVELOPMENT BANK'S COUNTRY STRATEGY, 2015-18

Country Strategy and its Proposed Contribution to Country Outcomes

3.01 The ultimate aim of the proposed Country Strategy is to help Barbados to achieve its objective to become a fully developed and people-centred society through new development pathways, as articulated in the Government's MTGDS 2013-2020. Specifically, it proposes to do this by supporting interventions that are intended to promote a fiscally sound, socially inclusive, gender equitable, competitive green economy. Accordingly, it is anchored on three pillars: *macroeconomic governance and institutional development; competitiveness and productivity; and green, inclusive development*. In an effort to maximise its development impact, the design of the proposed Country Strategy is guided by the principles of selectivity and additionality and framed within the following context: (i) high-level policy dialogue with key policymakers and stakeholders; (ii) the country's financial/fiscal capabilities; and (iii) development partners' activities in the country. It is consistent with CDB's strategic objectives of promoting broad-based economic growth and social development; and enhancing environmental sustainability.

3.02 Gender equality considerations will be mainstreamed in CDB's interventions. In order to ensure evidence of gender equality results in all the proposed intervening sectors, CDB and GOBD commit to include gender analysis and sex-disaggregated data in planning, implementation and monitoring and evaluating at the sector, programme and project levels. As a means to accomplish this, relative budgets should have sufficient resources allocated for conducting gender analyses, as well as supervision and evaluation exercises. In addition to the systematic integration of gender analysis, attention will be given to the effective engagement of a critical mass of stakeholders of both sexes, as well as gender-related groups, in undertaking needs assessments; prioritisation processes; project management committees; implementation; and M&E of projects. Whenever possible, gender analysis will also identify existing risks of gender-based violence specific to projects' contexts and recommend mitigation measures to be pursued by the corresponding projects. Additionally, in keeping with CDB's thrust to promote energy security, where appropriate, RE / EE considerations will also be mainstreamed in CDB's interventions.

Pillar I: Macroeconomic Governance and Institutional Development

3.03 To help strengthen macroeconomic governance, as well as the supporting institutional architecture for fiscal policy and management, CDB's interventions will focus on achieving strengthened fiscal sustainability and supporting institutions.

Expected Outcome 1: Strengthened Fiscal Sustainability and Supporting Institutions

3.04 In an effort to contribute to the attainment of this outcome, CDB proposes to assist GOBD to address the imperative of fiscal consolidation and reform by supporting the implementation of critical fiscal-structural reforms to improve public finances and strengthen underpinning fiscal institutions. The Government's 19-month fiscal adjustment programme, which commenced in August 2013, appears inadequate to restore medium-term fiscal sustainability, given the magnitude of the fiscal and debt challenge. The results of various debt sustainability analyses carried out by several institutions, including CDB, suggest that fiscal consolidation should be deepened. Higher growth rates and lower interest rates would help the adjustment process but, in the context of constrained growth prospects and an unfavourable credit rating, Barbados will need to rely principally on tightening the underlying primary balance. Therefore, CDB will collaborate closely with other development partners to support GOBD in achieving fiscal sustainability and strengthening economic management. In this regard, CDB is willing to coalesce around a common set of policy measures, which can be supported by a PBL. Such assistance will be in accordance with CDB's guidelines for policy-based operations. It is well appreciated that a delicate balance must be struck between fiscal consolidation and social protection to minimise dislocation and prevent undue

unravelling of hard-won development gains. In this regard, CDB also proposes to support initiatives in the social sector, as discussed under Pillar III.

3.05 CDB also proposes to provide parallel TA to enhance the effectiveness of GOBD projects and programmes through strengthened implementation processes. This would include capacity development and institutional strengthening related to project cycle management and public policy analysis and management across the range of intervention areas covered under the proposed Country Strategy. This will be undertaken as part of the regional initiative: *Public Policy Analysis and Management and Project Cycle Management (PPAM/PCM) Training Programme* of CDB. The programme will be implemented in each of CDB's BMCs over the period 2015-18. It will begin with a pre-learning survey that examines the implementation bottlenecks at the country level in key sectors and considers how these may be addressed through institutional reforms and through customised training of a wide cross-section of the public service and CDB staff. The PPAM/PCM programme will also include a module targeting sensitisation of senior public sector decision-makers on the institutional reforms needed to enable more effective management of policies, programmes and projects.

Pillar II: Competitiveness and Productivity

3.06 Consistent with this pillar, CDB's interventions are designed to achieve an enhanced enabling environment to strengthen competitiveness and productivity.

Expected Outcome 2: Enhanced Enabling Environment to Strengthen Competitiveness and Productivity

3.07 CDB proposes to assist GOBD to improve the enabling environment for business facilitation. Through its support, CDB intends to enhance the efficiency with which relevant public sector entities interface with the business sector. In particular, CDB proposes to assist GOBD in the development of a strategic and consolidated framework to steer implementation of reforms to improve the business climate. CDB also proposes to support the modernisation and institutional strengthening of the Immigration Department with a view to enhancing its service delivery to clients, including local and foreign businesses/investors. Additionally, CDB intends to collaborate with the Ministry of Industry, International Business, Commerce and Small Business Development on initiatives aimed at strengthening its business facilitation capability and capacity. Furthermore, CDB also proposes to support the Ministry of Culture, Sports and Youth in its efforts to preserve and manage the country's heritage assets, which is a key plank in GOBD's overall strategy to diversify the tourism product and, by extension, enhance the competitiveness of the sector.

3.08 CDB also proposes to support GOBD's policy effort to increase agricultural productivity and, by extension, the contribution of the agricultural sector to socio-economic development and food and nutrition security. The Bank proposes to assist GOBD to, among other things, set sector priorities, specify targets and the associated institutional framework and resource requirements to effectively realise its agricultural sector policy objectives. GOBD recently established 'Food Zones' as a way of focusing resources (both national and from regional agricultural-support institutions) on measures to spur small farmer production. However, progress in implementation of those plans/initiatives has been slow due, in part, to the absence of clearly defined action plans. CDB will explore the possibility of working with GOBD to develop action plans as well as the implementation of some of the recommendations emerging therefrom.

Pillar III: Green, Inclusive Development

3.09 To help promote green, inclusive development, CDB's interventions will focus on achieving the following outcomes: (i) strengthened resilience to climate change and improved disaster risk management;

(ii) improved quality of climate-resilient infrastructure; (iii) increased access to tertiary education opportunities; and (iv) enhanced social development.

Expected Outcome 3: Strengthened Resilience to Climate Change and Improved Disaster Risk Management

3.10 CDB aims to contribute to the realisation of this outcome by supporting interventions to: (i) protect the coastal environment; (ii) build capacity to mitigate against flash flooding in urban areas; (iii) build capacity to reduce land erosion in rural areas; and (iv) integrate environmental sustainability into schools. Proposed interventions in coastal protection will be targeted at protecting public beach areas and coral reefs. Apart from protecting these prized tourism assets, the resilience of the coastline to storm surge will be enhanced. CDB will provide support to enhance GOBD's capacity to plan and manage the perennial flash flooding challenges which currently plague many densely populated urban areas. To help address the problem of land use degradation, CDB will provide support for the formulation of a land use development plan for the Scotland District to help address the problem of land use degradation. This will provide the framework for a more structured and methodical approach to guide investment decisions in the area. CDB will also support a "Greening of Public Educational Institutions Initiative" feasibility study and the development of a blueprint for the greening of public educational institutions involving public primary and secondary schools. This will help public schools to make a smooth transition to the use of RE and the implementation of cost-effective energy efficient programmes. CDB will also explore opportunities to support the country consistent with the tenets of its Climate Resilience Strategy and Energy Policy.

Expected Outcome 4: Improved Quality of Climate-Resilient Infrastructure

3.11 The current Strategy contemplates addressing support gaps to help: (i) improve the condition of the road transportation network; and (ii) increase the efficiency of the public water supply system. Interventions in the road sector will replace failing bridge structures and improve road safety, as well as the condition of the road throughout the primary road network. The proposed interventions will result in reduced economic losses associated with traffic accidents and high vehicle maintenance. The planned interventions in the water sector will replace the aging transmission pipelines, pumps and storage tanks of the BWA. CDB's support will reduce the operational costs of the BWA by improving EE and reducing water losses.

Expected Outcome 5: Increased Access to Tertiary Education Opportunities

3.12 CDB proposes to assist GOBD's efforts to improve access to quality post-secondary and tertiary education opportunities, particularly for the most vulnerable. Interventions will include promoting a sustainable student loan financing system within a wider framework of tertiary education financing policy reform. Specifically, CDB proposes to support GOBD's efforts to increase funding to the Student Revolving Loan Fund (SRLF) for on-lending to students without the means to meet the 20% share of the tuition costs at UWI. Concomitantly, CDB also proposes to assist GOBD to improve the governance arrangements and the efficiency of operations at SRLF, through an institutional strengthening TA. The provision of resources to be accessed by students for their share of the tuition fees will increase the likelihood that such students can complete their studies with the expectation of contributing to the future growth of the economy. Meanwhile, the output from the TA to SRLF would provide recommendations to strengthen the operations of SRLF, thereby enhancing the delivery of services to students on a sustainable basis. The Bank also proposes to support GOBD's efforts to expand demand-driven TVET opportunities for effective school-to-work transition.

Expected Outcome 6: Enhanced Social Development

3.13 CDB proposes to support GOBD's efforts to strengthen social safety nets. Since the last CALC in 2010, social indicators have declined, principally as a result of the lingering effects of the global recession and the downturn in the local economy. The downturn has resulted in increased levels of unemployment and hardship particularly among poor households many of which are headed by women. Concomitant with the upsurge in unemployment has been an increase in the number of beneficiaries seeking support through the Welfare Department and various social assistance agencies under the aegis of the Ministry of Social Care, Constituency Empowerment and Community Development. In an effort to develop a model of support to address the needs of the poorest and most vulnerable, GOBD launched the pilot Identification, Stabilisation, Enablement and Empowerment (ISEE) Bridge social protection programme^{12/} in 2010. GOBD is in the process of reviewing and evaluating the programme, with Inter-American Development Bank (IDB) support, as a precursor to strengthening and expanding the system to reach a larger number of households currently expressing need. CDB proposes to assist GOBD's efforts to improve and streamline its targeting mechanism as one of the key priorities to be pursued in the expanded programme. Looking forward, GOBD will continue to undertake labour force surveys and has expressed interest in updating the previous CALC, particularly given the imperative of empirical data collection and analysis to assist the development of poverty reduction programmes and projects within the context of gender-equitable development. In this regard, CDB proposes to support GOBD's effort to enhance evidence-based policy and decision-making by improving robustness of social research to improve poverty monitoring and reduction.

Risk Analysis

3.14 Implementation success of the Country Strategy and the attainment of proposed outcomes hinge on how well the following operational risks (outlined in Table 3.1) are minimised and/or mitigated:

^{12/} The ISEE Bridge is modelled on the Puente Programme – a programme that has been highly successful in reducing poverty in Chile through an integrated psychosocial approach. The programme provides skills enhancement training to household heads, addresses the health and educational needs of school-aged children and coordinates a network of social support services to address the needs of families in the programme. The model, in addition to meeting households where they are, includes a graduation mechanism to move households up and out of the programme within a specified period as one of the means of encouraging development and mitigating dependency.

TABLE 3.1: COUNTRY STRATEGY IMPLEMENTATION RISKS AND MITIGATION MEASURES

Description of Risk	Mitigation Measures
<p><i>Macroeconomic Risk:</i></p> <p>The recovery in the economies of Barbados’ main trading partners, is fragile and the uncertain economic prospects pose downside risks for Barbados’ macroeconomic fundamentals. Fiscal consolidation and institutional strengthening efforts could be frustrated should a strong global recovery not materialise. Fiscal slippage can occur in the lead up to general elections, which is constitutionally due in 2018.</p>	<p>The Government has embarked on a programme of structural-fiscal reforms to improve public finances, promote growth, enhance competitiveness and build resilience. The proposed Country Strategy is designed to support GOBD’s reform efforts. Additionally, CDB will intensify dialogue with country authorities to underscore the importance and urgency of deepening the fiscal reform agenda. Furthermore, CDB will also offer policy advice to aid with re-prioritising and/or re-sequencing of project interventions as necessary. CDB will also actively monitor the implementation of the Strategy and engage other development partners in the process.</p>
<p><i>Implementation Risk:</i></p> <p>Coordination weakness between and across implementing agencies, given the number of projects being simultaneously implemented and administrative bottlenecks that may have intensified with the downsizing of the public sector, could thwart efficient execution of the Country Strategy. Additionally, inadequate M&E capacity can also impede efficient implementation.</p>	<p>CDB will only target projects that are at advanced stages of readiness. Additionally, CDB will continuously assess needs and help to build capacity of in-country teams as necessary in order to accelerate project implementation towards the achievement of the Strategy’s expected outcomes. CDB will also seek to participate in coordination activities with other development partners in an effort to plan activities in a manner that reduces implementation burden. Furthermore, CDB will conduct timely and active supervision. Moreover, support for project management, coordination and institutional strengthening measures will be incorporated in the project design.</p>
<p><i>Country Ownership Risk:</i></p> <p>Broad-based support for GOBD’s priorities and reform programme could be hindered and strategy implementation jeopardised, should the current fraction in the social partnership arrangement persist and/or widen.</p>	<p>As part of the CSP preparation, CDB engaged key stakeholders in civil society (non-governmental organisations, private sector and the Parliamentary Opposition) through extensive and intensive strategy consultations to help promote country ownership of the Strategy, which is anchored on GOBD’s MTGDS 2013-2020.</p>

4. STRATEGY IMPLEMENTATION AND RESULTS FRAMEWORK

Programme Overview

4.01 Table 4.1 identifies the indicative programme of assistance that CDB anticipates will contribute to the attainment of the outcomes being sought. The indicative interventions are based on the salient issues that emerged from discussions with key sector officials about the urgent priorities within the respective sectors and ongoing interventions supported by other development partners. To promote implementation efficiency and effectiveness, the approach to the strategic engagement will be characterised by close collaboration between Bank staff and their counterparts in country, as well as other development partners. Additionally, CDB will also enhance its technical support in the country throughout the project cycle.

TABLE 4.1: CARIBBEAN DEVELOPMENT BANK’S INDICATIVE LENDING AND TECHNICAL ASSISTANCE PROGRAMME TO BARBADOS, 2015-18

(USD mn)

PROPOSED INTERVENTIONS	INDICATIVE ALLOCATION
PILLAR I: MACROECONOMIC GOVERNANCE AND INSTITUTIONAL DEVELOPMENT	
<i>Outcome 1: Strengthened Fiscal Sustainability and Supporting Institutions</i>	
<ul style="list-style-type: none"> • Fiscal Reform Implementation • Institutional Strengthening 	25.0 0.2
PILLAR II: COMPETITIVENESS AND PRODUCTIVITY	
<i>Outcome 2: Enhanced Enabling Environment to Increase Competitiveness and Productivity</i>	
<ul style="list-style-type: none"> • Strengthening Competitiveness and Productivity Enablers 	29.5
PILLAR III: GREEN, INCLUSIVE DEVELOPMENT	
<i>Outcome 3: Strengthened Resilience to Climate Change and Improved Disaster Risk Management</i>	
<ul style="list-style-type: none"> • Coastal Zone Protection and Land Use Planning • Energy Efficiency Mainstreaming 	6.0 0.5
<i>Outcome 4: Improved Quality of Climate-Resilient Infrastructure</i>	
<ul style="list-style-type: none"> • Support to Transportation and Water Sectors 	29.3
<i>Outcome 5: Increased Access to Tertiary Education Opportunities</i>	
<ul style="list-style-type: none"> • Tertiary Financing Reform • School-to-Work Transition Enhancement 	15.0 5.0
<i>Outcome 6: Enhanced Social Development</i>	
<ul style="list-style-type: none"> • Support for Evidenced-based Poverty-reduction Research • Social Protection 	0.5 1.0
TOTAL	112.0

Indicative Resource Envelope

4.02 A notional resource envelope of USD112 mn has been estimated for the four-year period to support the proposed programme of interventions. However, lessons learnt dictate that CDB considers various scenarios for the utilisation of the resource envelope, based on factors that can adversely impact strategy implementation. Two critical factors are: (i) technical capacity limitations in key line ministries, which may hinder project preparation and execution; and (ii) GOBD’s budgetary constraints and the need to address the imperatives of fiscal consolidation and debt reduction over the medium term.

4.03 Against this backdrop, utilisation of the indicative envelope is envisioned under three scenarios: *Scenario 1* contemplates only TA interventions. Total allocation of all proposed interventions under this scenario is estimated at USD14.5 mn. *Scenario 2*, envisages a situation where economic growth and fiscal performance moderately exceed the baseline projections in Appendix 1.2, creating space for some capital investments. *Scenario 3* (the preferred scenario) contemplates full utilisation of the indicative resource envelope based on the assumption of a significant improvement in the country's growth and fiscal performances over the medium term. The assumption is premised on the strengthening of tourism performance with a firmer recovery of the economies of Barbados' main trading partners and a deepening of GOBD's fiscal consolidation programme. CDB will intensify its macroeconomic surveillance to improve its monitoring of public finances over the strategy period. Additionally, technical capacity limitations will be addressed by providing in-country capacity building in project cycle management and public policy analysis for executing agencies and associated line ministries.

Development Results, Results Frameworks and Country Strategy Monitoring and Review

4.04 CDB will use the RMF in Appendix 4.1 to monitor and assess development results of the assistance programme with Barbados. The RMF identifies the country's development objectives to which each of CDB's indicative intervention(s) is aligned, the sector constraint(s) to be addressed, the expected outcomes to which the proposed intervention(s) are expected to contribute (including gender equality) and the performance indicators against which the results of the indicative intervention(s) will be measured. For strategic purposes, the RMF is pitched at the sector level; however, the project-level RMF will be specified during project design.

4.05 Overall monitoring of the Strategy will be done by both CDB and country authorities. CDB's engagement will be focussed on promoting mutual accountability for results and fostering open and frequent policy dialogue with GOBD. Strategy implementation will be monitored through annual country portfolio reviews, as well as a mid-term review. The Mid-term Review will be undertaken in 2016 to assess progress towards meeting expected sector outcomes in addition to assessing portfolio progress and utilisation of the resource envelope. An end-of-strategy evaluation will also be undertaken to assess its contribution to sector outcomes.

Coordination of Development Partners

4.06 IDB is Barbados' main development partner. Other partners include the: European Union (EU); WB; Department of Foreign Affairs Trade and Development - Canada (DFATD), International Monetary Fund (IMF); and Caribbean Regional Technical Assistance Centre (CARTAC). The main bilateral partner is China. CDB will continue to explore areas for greater collaboration and harmonisation in an effort to minimise duplication and maximise the development impact of its interventions. In the past, the Bank cooperated with IDB in funding specific projects, particularly in the education sector. Going forward, donor coordination will be strengthened through regular dialogue and further opportunities for collaboration will be actively pursued. Appendix 4.2 summarises the current activities of development partners.

Implementation Plan and Responsibilities

4.07 Implementation of the Country Strategy will be guided by a coherent operational framework that defines specific roles and responsibilities at both the country and Bank levels once projects have been approved. The relevant line ministries/agencies (in close collaboration with the Public Investment Unit) will have responsibility for the management of specific projects while CDB will assist with implementation through technical and financial assistance and will work closely with the relevant executing agencies to ensure timely implementation of projects following Board approval. Where needed, capacity-building

support will be provided to facilitate efficient execution of projects and, by extension, promote the realisation of the expected sector outcomes of the proposed Country Strategy. The mechanism to promote efficient strategy implementation will be through structured communication channels and regular reporting. The RMF will be utilised to monitor sector outcomes associated with CDB's proposed Country Strategy. CDB will work closely with country officials to promote and improve cross-agency/cross-sector dialogue and collaboration with a view to fostering a common view of results and collective responsibility for their achievement. Moreover, CDB will continue to actively monitor socioeconomic developments in Barbados and have regular policy dialogue with country officials in order to ensure that the Strategy is appropriately adjusted to reflect any changes in Government's priorities.

GENDER MARKER ANALYSIS

Criteria	Score	Description/Code
Analysis	1	Country Strategy Paper (CSP) informed by previous gender analysis (Country Gender Assessment (CGA), 2014).
Data	1	Sex-disaggregated data available in the CGA and used to inform the strategic fit of the CSP to support achievement of country's development objectives. Data will inform indicators and targets.
Engagement	0.5	Consultations with gender relevant stakeholders undertaken during preparation.
Response	1	Gender responsive outcomes, outputs and indicators included.
Total	3.5	Code: GM

SELECTED MACROECONOMIC INDICATORS

Item	2014^E	2015	2016	2017	2018
Real Gross Domestic Product (GDP) Growth (%)	0.0	1.3	1.8	2.2	2.3
Inflation, period average (%)	2.0	1.7	1.9	2.3	2.6
Overall Fiscal Balance (% of GDP)*	(12.5)	(7.3)	(5.6)	(4.3)	(3.7)
Central Government Debt (% of GDP)	111.9	113.6	113.1	111.7	110.6

Sources: CDB, Central Bank of Barbados and IMF

Notes: * means fiscal year.

EASE-OF-DOING BUSINESS INDICATORS, 2015

Item		2015	2014	Change in Rank	Regional Average (2015)
<i>Overall Ease-of-Doing Business Rank</i>		106	103	↓ (3)	
<i>Starting a Business</i>	Procedures (Number)	8	8	→	8
	Time (days)	18	18	→	39
	Cost (% of income per capita)	7.6	7.2	↓	39
	Paid-in Min. Capital (% of income per capita)	0.0	0.0	→	1
<i>Dealing with Construction Permits</i>	Procedures (number)	9	9	→	10
	Time (days)	442	442	→	247
<i>Getting Electricity</i>	Time (days)	87	87	→	59
<i>Registering Property</i>	Time (days)	118	118	→	85
<i>Paying Taxes</i>	Time (hours per year)	237	237	→	181
<i>Trading Across Borders</i>	Documents to exports (number)	5	5	→	6
	Time to export (days)	9	9	→	16
	Cost to export (USD per container)	810	810	→	1,013
	Documents to import (number)	5	5	→	7
	Time to import (days)	8	8	→	16
	Cost to import (USD per container)	1,615	1,615	→	1,675
<i>Enforcing Contracts</i>	Time (days)	1,340	1,340	→	772
	Costs (% of claim)	19.7	19.7	→	31
	Procedures (number)	38	38	→	43

INDICATIVE RESULTS MONITORING FRAMEWORK

Country Objectives	Key Sector Challenges	Expected Sector Outcomes	Outcome Indicators	CDB Proposed Intervention
Macroeconomic stability to support economic growth and development	<ul style="list-style-type: none"> Fiscal unsustainability (acute and persistent fiscal deficits and high public debt). 	<ul style="list-style-type: none"> Strengthened fiscal sustainability. 	<ul style="list-style-type: none"> Government current expenditure not exceeding 30 per cent (%) of Gross Domestic Product by 2020. <i>Baseline (2014): 35%.</i> 	<ul style="list-style-type: none"> Support for the implementation of fiscal reforms.
	<ul style="list-style-type: none"> Inadequate implementation capacity for public sector projects and programmes. 	<ul style="list-style-type: none"> Strengthened implementation capacity for public sector projects and programmes. 	<ul style="list-style-type: none"> Percentage of Project Supervision Reports with satisfactory performances increased from 57% in 2013 to at least 75% by 2020. 	<ul style="list-style-type: none"> Technical Assistance (TA) to enhance the effectiveness of the Government of Barbados (GOBD) projects and programmes through the PPAM/PCM training.
Increase competitiveness and productivity to support economic growth and development	<ul style="list-style-type: none"> Inadequate business facilitation. Fragmented institutional framework for public sector interventions in agriculture. Inadequate management and maintenance of heritage sites. 	<ul style="list-style-type: none"> Enhanced enabling environment to strengthen competitiveness and productivity. 	<ul style="list-style-type: none"> Number of days required to start a business less than 18 by 2020. <i>Baseline (2014): 18.</i> Consolidated agriculture sector policy in place and complied with by end-2016. <i>Baseline (2014): No consolidated policy.</i> Conservation strategy for the management of all heritage sites completed and complied with by end-2018. <i>Baseline (2014): No strategy.</i> 	<ul style="list-style-type: none"> Institutional strengthening of Ministry of Commerce, Industry and Small Business Development. Institutional strengthening and operational enhancements of Immigration Department. Support to Ministry of Agriculture, Food, Fisheries, and Water Resource Management. TA to Ministry of Culture, Sports and Youth.
Educational improvement to support economic growth and development.	<ul style="list-style-type: none"> Insufficient students graduating to meet the demands of the workplace. Student Revolving Loan Fund (SRLF) unable to effectively deliver services on a sustainable basis. 	<ul style="list-style-type: none"> Increased access to tertiary education opportunities. Enhanced operations and governance of SRLF. Increased access to demand-driven Technical and Vocational Education and Training (TVET) opportunities. 	<ul style="list-style-type: none"> Number of student loans for tertiary studies doubled by end-2018, relative to baseline of 350 in 2013. Operational and governance reforms recommended from diagnostic review implemented by end-2018. <i>Baseline (2014): No diagnostic review.</i> Number of students achieving Caribbean Vocational Quality and National Vocational Quality Level 1 and 2 certification increased from 235 in 2014 to 415^{1/} in 2020. 	<ul style="list-style-type: none"> Line of Credit to SRLF. Institutional strengthening of SRLF. TVET enhancement project in secondary and post-secondary education.

^{1/} 10% increase annually.

Country Objectives	Key Sector Challenges	Expected Sector Outcomes	Outcome Indicators	CDB Proposed Intervention
Physical infrastructure modernisation to support economic growth and development.	<ul style="list-style-type: none"> • Aging water supply infrastructure. • Poor condition of road infrastructure. 	<ul style="list-style-type: none"> • Improved quality of climate-resilient infrastructure. 	<ul style="list-style-type: none"> • Decrease in non-revenue water from 50% in 2013 to 35% by December 31, 2018. • Five bridges replaced by December 31, 2018. <i>Baseline (2013): Zero.</i> 	<ul style="list-style-type: none"> • Pipelines, pumps, and storage tanks replacements. • Road and bridge improvements.
Environmental sustainability to support competitiveness, economic growth and development.	<ul style="list-style-type: none"> • High level of land degradation in the Scotland District • Vulnerability of coastal infrastructure to natural hazards. • Urban areas highly vulnerable to flash floods. • High energy costs. • Inadequate capacity of education sector to make transition to sustainable forms of energy. 	<ul style="list-style-type: none"> • Strengthened resilience to climate change and improved disaster risk management. 	<ul style="list-style-type: none"> • Beach protection infrastructure for one beach completed by December, 2018. <i>Baseline (2014): Zero.</i> • Urban Flood Mitigation Plan developed and complied with by December 31, 2017. <i>Baseline (2014): No plan.</i> • Scotland District Land Use Plan developed and complied with by December 31, 2017. <i>Baseline (2014): No plan.</i> • Schools compliant with GOBD's energy objectives by end-2020. <i>Baseline (2014): Non-compliant.</i> 	<ul style="list-style-type: none"> • Crane Beach Protection Project. • New Orleans Drainage Plan. • Scotland District Land Use Development Plan. • Feasibility Study and Roadmap for Greening of Schools.
Social Protection and inclusion to support economic growth and development.	<ul style="list-style-type: none"> • Limited institutional capacity. • Insufficient human resource capacity. 	<ul style="list-style-type: none"> • Enhanced social development. 	<ul style="list-style-type: none"> • 10% reduction in number of Identification, Stabilisation, Enablement and Empowerment Bridge Programme beneficiaries by sex by 2020. <i>Baseline (2014): 200 Target:180</i> 	<ul style="list-style-type: none"> • Support in conducting Labour Force Surveys and in updating the CALC. • Support to strengthening social protection targeting instrument.

DEVELOPMENT PARTNERS' MATRIX

Area*	CDB	IDB	EU	WB	DFATD	IMF	CARTAC	CHINA
Energy		X	X					
Private Sector Development		X			X			
Public Sector Modernisation		X			X		X	
Education	X	X	X					
Water and Sanitation	X	X						
Housing	X	X						X
Health				X				
Environment and Coastal Protection	X	X						
Transportation	X	X						
Public Financial Management	X	X	X			X	X	

* Current activities.

FIGURE 1

MAP OF BARBADOS

