

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	BARBADOS/CCB - Caribbean Group
▪ TC Name:	Stimulating Private Sector Development in Barbados through Social Innovation
▪ TC Number:	BA-T1094
▪ Team Leader/Members:	DOHNERT DE LASCURAIN, SYLVIA EVA (IFD/CTI) Team Leader; STEVENSON, CLAUDIA (IFD/CTI) Alternate Team Leader; ANTA, RAFAEL (IFD/CTI); CRESPI, GUSTAVO ATILIO (IFD/CTI); MARIA ALEJANDRA GALEANO (IFD/CTI); JAINAUTH-UMRAO, NAVEEN (VPC/FMP); PELAEZ RESTREPO, JOHANNA (VPC/FMP); ACEVEDO CALLE, DANIELA (LEG/SGO); BLENMAN, SHAMAR (CCB/CBA); GENESIS MORALES (IFD/CTI)
▪ Taxonomy:	Client Support
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	14 Mar 2023
▪ Beneficiary:	Barbados
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$200,000.00
▪ Local counterpart funding:	US\$3,000.00 (In Kind)
▪ Disbursement period:	24 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	IFD/CTI - Competitiveness, Technology and Innovation Division
▪ Unit of Disbursement Responsibility:	CCB/CBA - Country Office Barbados
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	Yes
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation ; Institutional capacity and rule of law

II. Objective and Justification

- 2.1 The general objective of this TC is to support the Government of Barbados to design a set of strategies, policy tools and instruments that can position Barbados as a test bed for globally oriented social innovation start-ups which could have positive entrepreneurial and growth externalities to the rest of the economy. The specific objectives are: (i) to support the Barbados' Government to produce a roadmap for the development of a global innovation sandbox; and (ii) to develop complementary risk capital financing mechanisms to expand the entrepreneurial scope of such a sandbox.
- 2.2 Barbados' GDP growth has stagnated over time, with an average annual GDP growth of only 0.16% in the two decades before COVID-19 (World Economic Outlook), despite its undoubtedly very impressive human capital achievements. Like other Caribbean countries, low levels of economic growth have been underpinned by stagnant Total Factor Productivity (TFP) growth over the past three decades (Ruprah et. al., 2014).
- 2.3 At the macro level, TFP measures how an economy combines its inputs to produce value and reflects technological change of an economy. At the micro level, TFP captures the innovation and/or technology development and adoption activities of

private sector firms and the efforts to create more value in either new products or processes . Producing more value with the same resources requires firms to innovate. Cross country research has found that 75% of the difference in TFP growth rates among countries can be directly explained by differences in the investment on research and development, which is a proxy for investment in innovation (Griliches 1979) .

- 2.4 Although Barbados has been affected by the same stagnation of productivity growth as the rest of the Caribbean, its conditions are vastly different. On one hand, Barbados has attained an impressive education at all levels, has well-functioning labor markets, a high % of innovative firms (32%), and a very high % of potentially innovative firms (64%) , which evidences a fair amount of sophistication in its private sector. Barbados has also achieved a good quality of life marked by a high GDP per capita, good quality public services, and relatively low income-inequality supported by relatively high wages (compare to the other Caribbean countries and LAC). Given these circumstances, Barbados may be experiencing a middle-income trap – a situation that is marked by the inability to compete with low-wage economies, and with the more innovative, fast-moving, advanced economies(see Flaaen et. al. 2013).
- 2.5 The FutureBarbados program was formed in 2021 under the Prime Minister’s office as a call to action to engage talented young people under 35 to create and activate innovative solutions to national challenges. During the programs’ first 12 months, it has successfully engaged 400 young persons in Barbados and the diaspora, created 23 ideas and concepts to support national transformation, and created 4 working prototypes that will move into Series A funding calls in Q2 2023.
- 2.6 Barbados has not appeared in the Global Innovation Index (GII) since 2015, leaving an opportunity to create a framework that can rekindle growth as well as leapfrog its relevance in the innovation space. Venture Capital (VC) has become more inclusive, with Latin America, the Caribbean and Africa regions witnessing the strongest VC growth, albeit from a low base. The VC outlook for 2022 is more sober; tightening monetary policies and the knock-on effect on risk capital will lead to a deceleration in VC (GII 2022). It is therefore an opportune time for Barbados to explore in a coordinated effort the feasibility and plan for elevating its reputation in Global Innovation.

III. Description of Activities and Outputs

- 3.1 **Component I: Develop a policy framework and road map for an innovation testbed/sandbox.** Will develop a roadmap to position Barbados as an attractive global hub for social innovation. It will recommend to the government of Barbados the type of regulatory spaces to create, the areas that should be targeted for attracting global R&D and startups, how to create linkages with local R&D and entrepreneurial activities, and a strategy for the execution of the roadmap.
- 3.2 **Component II: Develop a framework for the operation of a risk capital fund.** Will create an operational framework for an innovation fund that will service both domestic and global entrepreneurs entering the testbed/sandbox. It will examine the types of risk capital most fit for purpose for the entrepreneurial ventures entering the testbed/sandbox described in Component 1, including Venture Capital (VC), and how to attract investors and global innovators.
- 3.3 **Component III: Communication and dissemination.** The project will actively engage with public policy makers, startups and potential investors to communicate the products developed and move forward with implementation of the innovation testbed/sandbox and the risk capital fund.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Develop a policy framework and road map for an innovation testbed/sandbox	US\$100,000.00	US\$0.00	US\$100,000.00
Develop a framework for the operation of a risk capital fund	US\$100,000.00	US\$0.00	US\$100,000.00
Communication and dissemination	US\$0.00	US\$3,000.00	US\$3,000.00
Total	US\$200,000.00	US\$3,000.00	US\$203,000.00

V. Executing Agency and Execution Structure

- 5.1 In response to the request of the client, the execution of this TC will be carried out by the Competitiveness, Technology and Innovation Division (IFD/CTI) of the IADB. The execution and disbursement period will be 24 months and the Unit of Disbursement Responsibility (UDR) will be CBA.
- 5.2 IDB Procurement Policies and Procedures will apply for the procurement of goods, works, consulting services and services other than consulting services, financed with resources of the IDB. The activities to be executed will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-4 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature; and (c) GN-2303-20 for logistics and other related services.

VI. Project Risks and Issues

- 6.1 Identification of appropriate consultants for the areas of expertise required is a risk for this project. The project team will work together with the government counterparts to identify a pool of consultants to achieve various deliverables under the project.
- 6.2 There is a risk that by the time the outputs of the project are realized, innovation is no longer a government priority. FutureBarbados, which is the counterpart for this project, has received funding from the Government of Barbados for its core activities for the 2023-2024 Financial year and has been given the scope to develop these components as part of its larger mandate. The outputs generated by the project as well as the potential outcomes for Barbados were it to implement the sandbox and risk capital funds will be widely disseminated across the public sector to sustain interest in the game-changing nature of the project.

VII. Environmental and Social Classification

- 7.1 The ESG classification for this operation is "undefined".