

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BARBADOS

**PROGRAM TO SUPPORT ENVIRONMENTAL AND ECONOMIC DEVELOPMENT
IN BARBADOS**

(BA-U0001)

GUARANTEE PROPOSAL

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REQUIRED ELECTRONIC LINKS (REL)	
REL#1	Policy Letter
REL#2	Means of Verification Matrix
REL#3	Monitoring and Evaluation Plan

OPTIONAL ELECTRONIC LINKS (OEL)	
OEL#1	NFDC as a New Financial Instrument Discussion Paper

ABBREVIATIONS	
AR6	6 th Assessment Report
BE	Blue Economy
BERT	Barbados Economic Recovery and Transformation Program
BESF	Barbados Environmental Sustainability Fund
CF	Conservation Funds
CFA	Conservation Funding Agreement
CTF	Conservation Trust Fund
DEM	Development Effectiveness Matrix
DFNC	Debt for Nature Conversion
DFNS	Debt for Nature Swap
DMO	Debt Management Office
EA	Executive Agency
EEZ	Exclusive Economic Zone
EFF	Extended Fund Facility
ESPF	Environmental and Social Policy Framework
FY	Fiscal Year
GDO	General Development Objectives
GDP	Gross Domestic Product
ICMA	International Capital Markets Association
IDB	Inter-American Development Bank
IIED	International Institute for Environment and Development
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
MDB	Multilateral Development Bank
MENB	Ministry of Environment and National Beautification, Green and Blue Economy
MFEI	Ministry of Finance, Economic Affairs and Investment
MPA	Marine Protected Areas
MSP	Marine Spatial Plan
MTDS	Medium-Term Debt Management Strategy
NBSAP	National Biodiversity Strategy and Action Plan
NCL	Natural Capital Lab
NDC	National Development Contribution
OECD	Organisation for Economic Co-operation and Development
PBG	Policy-Based Guarantee
R2RP	Roofs-to-Reefs Program
RCP	Representative Concentration Pathway
SDG	Sustainable Development Goals
SDO	Specific Development Objectives
SLB	Sustainability Linked Bond
SPO	Second Party Opinion

ABBREVIATIONS	
TC	Technical Cooperation
TNC	The Nature Conservancy
UIS	Second Update of the Institutional Strategy
UNCEPA	United Nations Committee on Experts on Public Administration
UNDP	United Nations Development Programme
WAL	Weighted Average Life

PROJECT SUMMARY
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Financial Terms and Conditions				
Guarantor:			Flexible Financing Facility ^(b)	
The Inter-American Development Bank			Maximum guarantee period:	20 years
Guaranteed Debtor and Counter-Guarantor:				
The Government of Barbados			Weighted Average Life (WAL):	12.75 years
Executing Agency (EA):				
Ministry of Finance, Economic Affairs and Investment (MFEI)			Guarantee fee:	(b)
Guaranteed Creditors:				
Creditors of Barbados under the Guaranteed Instrument			Stand-by fee:	(b) and (c)
Guaranteed Obligations:				
Future payment obligations under a loan or a bond to be issued by the Government of Barbados (the “Guaranteed Instrument”)			Inspection and supervision fee:	(b)
Instrument:				
Policy-Based Guarantee (PBG)			Currency of approval:	Dollars of the United States of America
Source ^(a)	Amount (US\$)	%		
BID (Ordinary Capital):	100 million	100		
Total:	100 million	100		
Project at a Glance				
Project Objective/Description: The General Development Objective of the program is to strengthen environmental sustainability in Barbados. The Specific Development Objectives are: (i) strengthening the institutional framework to support sustainable finance and adequate natural resource management; and (ii) improving debt management capacity with a focus on environmental and financial sustainability.				
Special Contractual Clauses prior to the Issuance of the Guarantee: The issuance of the guarantee will be subject to the following conditions: (i) the Counter-Guarantor shall have complied with the policy conditions of this operation summarized in the Policy Matrix (Annex II) and the Policy Letter ; (ii) the Bank shall have negotiated and be in agreement with the terms of the guarantee contract; (iii) the Bank shall be satisfied with the structuring of the Guaranteed Instrument and its related documentation; and (iv) a Counter-Guarantee Agreement between the Bank and the Counter-Guarantor shall have entered into effect in terms acceptable to the Bank (¶3.9).				
Exceptions to Bank Policies: Waivers are being requested to the rules contained in: (i) footnote 37 of the Policy Proposal for a Flexible Guarantee Instrument Applicable to Sovereign Guaranteed Operations (GN-2729-2), which states that IDB sovereign guarantees do not cover debt acceleration (¶3.12); and (ii) footnote 53 of the same Policy, which states that in the event of a call on the IDB sovereign guarantee, the tenor of the repayment terms agreed between the Bank and the Sovereign will be within the tenor of the remaining Weighted Average Life (WAL) (after deducting the guarantee period from the original WAL) (¶3.13).				
Strategic Alignment				
Challenges: ^(d)	SI <input type="checkbox"/>		PI <input checked="" type="checkbox"/>	
Cross-Cutting Issues: ^(e)	GE <input type="checkbox"/> y DI <input type="checkbox"/>		CC <input checked="" type="checkbox"/> y ES <input checked="" type="checkbox"/>	
Sustainable Development Goals (SDG): ^(f)	SDG1 <input type="checkbox"/> SDG2 <input type="checkbox"/> SDG3 <input type="checkbox"/> SDG4 <input type="checkbox"/> SDG5 <input type="checkbox"/> SDG6 <input type="checkbox"/> SDG7 <input type="checkbox"/>			
	SDG8 <input type="checkbox"/> SDG9 <input type="checkbox"/> SDG10 <input checked="" type="checkbox"/> SDG11 <input type="checkbox"/> SDG12 <input checked="" type="checkbox"/> SDG13 <input checked="" type="checkbox"/> SDG14 <input checked="" type="checkbox"/>			
	SDG15 <input checked="" type="checkbox"/> SDG16 <input type="checkbox"/> SDG17 <input type="checkbox"/>			

- (a) There will be a parallel cofinancing by The Nature Conservancy, who is expected to provide a co-guarantee of US\$25 million. See ¶3.2.
- (b) The guarantee, stand-by, credit and inspection and supervision fees will be established periodically by the Board of Executive Directors as a part of its review of the Bank's financial terms, in accordance with the corresponding policies.
- (c) The stand-by fee will be equal to the credit fee for sovereign guaranteed loans and will be accrued from the effective date of the guarantee contract, calculated on the difference between the approved amount of the guarantee and its effective amount at any time.
- (d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- (e) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).
- (f) SDG (Sustainable Development Goal). For more information regarding the SDGs and the IDBs Group SDG Project Classification Methodology, please see this [link](#).

I. MACROECONOMIC FRAMEWORK AND DESCRIPTION OF INSTITUTIONAL AND SECTORAL PROBLEMS

A. Macroeconomic Framework and Outlook

- 1.1 Prior to the COVID-19 pandemic, Barbados had been facing severe macroeconomic challenges, which led to an ambitious fiscal reform program that began in 2018. During the last years, Barbados has experienced slowing economic growth, which declined from an average of 1.4% (2000-2009) to 0.0% (2010-2018), coupled with recurring fiscal deficits, resulting in a quick escalation of debt. By Fiscal Year (FY) 2017-2018, the debt-to-GDP ratio reached 158.3% of GDP (Gross Domestic Product).^{1, 2} In response, the Barbados Economic Recovery and Transformation Program (BERT) was launched by the government in August 2018, which became the underlying framework for a four-year International Monetary Fund (IMF) Extended Fund Facility (EFF) program, signed in October 2018. Following the initial implementation of the reforms, including the completion of the debt exchange, the debt-to-GDP ratio declined to 124.8% in FY2019-2020 and the fiscal balance improved from -2.6% in FY2017-2018 to 5.7% in FY2019-2020. Being a tourism dependent economy, the COVID-19 pandemic represented a severe economic shock, with real GDP falling 18.0% in 2020 and unemployment peaking at around 25%. After the COVID-19 pandemic, higher government expenditures coupled with lower revenues resulted in a debt-to-GDP ratio of 156.8% and a fiscal deficit of 1.8% in FY2020-2021. However, Barbados has remained committed to the BERT and EFF³ programs and targets have been adjusted, reflecting worsening economic conditions.⁴ The government is facing extreme economic circumstances and uncertainty in the short and medium term remains high. Recovery will depend on the reactivation of the tourism sector which, in turn, depends on the evolution of the pandemic.

B. Institutional and Sectoral Problems

- 1.2 **Natural capital and environmental sustainability in Barbados.** Barbados' natural capital⁵ is vast and its principally characterized by its marine biodiversity. Barbados' Exclusive Economic Zone (EEZ), which represents its 185,000Km² of ocean area, is more than 400 times larger than the country's

¹ Macroeconomic data: IMF World Economic Outlook April 2021.

² Fiscal year in Barbados: April 1 to March 31.

³ The EFF program approved in October 2018 amounted to US\$290 million. After the approval of two augmentation requests, the program now amounts to US\$464 million, of which US\$415 million have been disbursed so far. See: IMF (2021). Fifth Review Under the Extended Arrangement and Requests for Waiver of Nonobservance of Performance Criterion, and Modification of Performance Criteria. IMF Country Report No. 21/128. June 2021.

⁴ For example, quantitative targets for primary fiscal balance and fiscal balance have been revised downwards on several occasions, and certain structural benchmarks have been postponed. Several non-priority public spending were cut from fiscal budget.

⁵ One could define natural capital as the elements of nature that directly and indirectly produce value or benefits to people, including ecosystems, species, freshwater, land, minerals, the air, and oceans, as well as natural processes and functions. United Nations Conference on Trade and Development (2014). [Towards a Definition of Natural Capital](#).

landmass area.⁶ This natural capital not only has intrinsic invaluable worth, but is also an instrumental input for key economic sectors in Barbados, including tourism, fisheries, and shoreline protection.⁷ There are major ongoing threats to marine ecosystems in Barbados deriving from pollution, over-exploitation of resources, fragmentation, invasive species, and climate change. The consequences of not advancing on marine planning, conservation, restoration, and sustainable use of resources would be detrimental to the country's economic, physical, and environmental sustainability, so developing a strategy to finance marine conservation, Blue Economy (BE), and coastal zone projects are vital for the long-term wellbeing in the country.

- 1.3 **Natural capital and climate change in Barbados.** Climate change has a direct impact on marine biodiversity and constitutes one of its biggest and fastest-growing threats. The cost of inaction in Barbados has been evaluated to 6.9% of GDP by 2025 and 13.9% by 2050.⁸ As the ocean is a carbon sink, absorbing up to a quarter of global CO₂ emissions, the ocean's temperatures and acidity levels are increasing, affecting the delicate balance that allows livelihood in the oceans. Furthermore, extreme climate events, such as erosion and flooding, deplete natural environments.⁹ Based on the Intergovernmental Panel on Climate Change (IPCC) 6th Assessment Report (AR6), small islands mean temperature is very likely to increase by 1°C to 2°C for the period of 2041-2060, and 2°C to 4°C for 2081-2100 under Representative Concentration Pathway (RCP) 8.5, resulting in marine heatwaves and an ocean acidification increase.¹⁰ In order to protect and mitigate the effects of climate change on biodiversity a series of actions that include natural capital conservation,¹¹ restoration, and adaptation of economic activities, among others, need to take place in the country. For this to happen, an adequate institutional framework must exist to properly manage the natural capital and the financial aspects associated with the undertaking of the necessary preservation strategies.
- 1.4 **Government of Barbados' environmental strategy.** Barbados has made important progress in its environmental commitments, submitting its updated National Development Contribution (NDC) in 2021,¹² updating the National Biodiversity Strategy and Action Plan (NBSAP)¹³ in 2020, approving its Blue Economy Roadmap (BE Roadmap) to guide its work, and establishing the Roofs-to-Reefs Program (R2RP), a planned programmatic investment approach over a ten-year horizon which is expected to prepare, design, coordinate, and implement sustainable, efficient, climate-resilient, social, ecosystem-based, urban and smart infrastructure interventions. In 2021, the government approved the

⁶ This ocean area is habitat to three species of marine turtles, four species of seagrass, ten species of soft coral, and 31 species of hard coral, in addition to fish, snails, and other plants and animals. Barbados National Biodiversity Strategy and Action Plan 2020 Update.

⁷ Richard Waite; P.J.H. Van Beukering, L. Burke, L. Brander. Coastal Capital: ecosystem valuation for decision making in the Caribbean. Pecharcal Report 2014.

⁸ 2004 GDP. Commonwealth Marine Economies Programme. [Caribbean Marine Climate Change Report 2017](#).

⁹ Ocean and Climate (2016) – [Fact sheets](#), Second Edition; and Gager, A. (2020). [A Primer on Climate Change and Marine Biodiversity](#). Our shared seas– Insights.

¹⁰ Commonwealth Marine Economies Programme. [Caribbean Marine Climate Change Report Card 2017](#).

¹¹ A recent study shows the positive impact of Marine Protected Areas on marine fauna preservation and the BE. See: Tim R. McClanahan (2021), [Marine reserve more sustainable than gear restriction in maintaining long-term coral reef fisheries yields](#), Marine Policy, Volume 128.

¹² [Barbados 2021: Update of the First Nationally Determined Contribution](#).

¹³ [NBSAP, 2020](#).

Integrated BE Policy Framework and Strategic Action Plan committing to the equal and balanced prioritization of the interlinked economic, environment, and social sustainability pillars –which underpin the United Nations Sustainable Development Goals (SDG) framework; and aiming to create and implement a sustainable governance that enables inclusive and distributive economic growth within the limits of healthy and resilient marine ecosystems.

- 1.5 **Environmental governance.** The achievement of sustainability and natural capital conservation goals are crucially related to the levels of institutional capacity¹⁴ to design, implement, and monitor policies. Environmental governance refers to the set of structures and processes related to making and implementing decisions related to the environment and natural capital.¹⁵ This includes mechanisms that ensure compliance with and enforcement of environmental laws, as well as organizations and practices aimed at improving specific environmental outcomes.¹⁶ According to the United Nations, effective governance for sustainable development implies that public institutions should be based in the following key principles: effectiveness, accountability, and inclusiveness.¹⁷ Since environment-related policy is a cross-cutting issue that involves cooperation and coordination among many organizations and individuals, a sufficient level of relevant capacity is needed to undertake these strategies.¹⁸ This requires, among other aspects, the existence of a leading institution in charge of the issue; sufficient personnel dedicated to environmental issues in key governments institutions; recognition of the issue in the structure of organizations; and institutional arrangements to develop a climate-related strategies.¹⁹ In the case of biodiversity, it is crucial for countries to develop integrated and holistic approaches to biodiversity preservation; to strengthen national biodiversity strategies and action plans; to adequately design country-owned goals and targets; to value their natural assets adequately for better conservation, etc.²⁰
- 1.6 **IDB Policy-Based Guarantee (PBG) rationale.** To enhance the Government of Barbados' efforts regarding environmental sustainability, this operation, which is structured as a PBG, will support: (i) a policy program reform to strengthen environmental governance in Barbados; and (ii) a sovereign guarantee to support a debt instrument issued by the Government of Barbados in connection with a Debt for Nature Conversion (DFNC) with the objective of financing natural conservation activities. The DFNC will work as follows: the guarantee to be provided by the IDB will help to reduce the cost of the Guaranteed Instrument (bond or loan) issued by the Government of Barbados, the proceeds of which will be used to buy back outstanding and more expensive bonds. The savings for the Government of Barbados facilitated by the IDB guarantee will be directed towards conservation activities through a conservation trust fund, the "CTF" or the "Barbados

¹⁴ United Nations Development Programme (UNDP) (2014). Governance for Sustainable Development. Integrating Governance in the Post-2015 Development Framework. Discussion Paper.

¹⁵ UNEP (2019). Environmental Rule of Law: First Global Report. UNDP, Nairobi.

¹⁶ Interamerican Development Bank (IDB), World Justice Project (WJP) (2020). Environmental Governance Indicators for Latin America & the Caribbean.

¹⁷ United Nations Committee of Experts on Public Administration (UNCEPA) (2018). Principles of Effective Governance for Sustainable Development; UNCEPA: New York, NY, USA.

¹⁸ Willems, S. and Baumert, K. (2003). Institutional Capacity and Climate Actions. Organisation for Economic Co-operation and Development (OECD).

¹⁹ Willems, S. and Baumert, K. (2003). OECD.

²⁰ Secretariat of the Convention on Biological Diversity (2020). Global Biodiversity Outlook 5. Montreal.

Environmental Sustainability Fund” (BESF)). The key steps for the development of the BESF are included in the policy program. In this sense, both elements of the PBG (the policy program and the sovereign guaranteed instrument) complement and reinforce each other. More details on the rationale, structure, and components of the policy program and the IDB guarantee are provided in the following sections of this document.

II. REFORM PROGRAM, OBJECTIVES, COMPONENTS AND EXPECTED RESULTS

A. Reform Program

- 2.1 **Policy reform program strategy.** The policy program seeks to improve environmental sustainability in Barbados by developing a financial instrument and policy framework to support conservation and restoration of marine and coastal natural capital. Marine and coastal ecosystem restoration in Barbados faces the following two main challenges: (i) the development of strong Conservation Commitments and funding mechanisms, which can be addressed through the targets of a sustainable investment framework and associated independent conservation trust fund designated to manage the resources directed to natural capital conservation from a DFNC; and (ii) improvement of the debt management framework, with a focus on developing new instruments for sustainable finance, including those related to the issuance of sustainable bonds.
- 2.2 **Strengthening the Conservation Commitments by the Government of Barbados.** Credible and enforceable policy commitments are crucial for long-term environmental improvement. As a central part of this strategy, Barbados has approved a BE Roadmap that underlines the need to pursue the development of a national Marine Spatial Plan (MSP), allowing for an increase in the total area of Marine Protected Areas (MPA) and expanding institutional support for ecosystem-based fisheries management. However, to implement this plan, the government needs to: (i) update its Conservation Commitments to achieve the targets set in their NBSAP, which include placing at least 17% of terrestrial and inland water, and 10% of coastal and marine areas under protection by 2030; and (ii) design and launch the MSP taking into consideration all the main actors required to build social, political and economic consensus.
- 2.3 **Establishment of a Conservation Fund (CF).** A major challenge to provide sustainable natural capital conservation activities is the establishment of a vehicle to provide recurrent, long-term conservation funding.²¹ For the past 30 years, 40 countries have established CFs, which are legally independent grant-making institutions that provide financing for biodiversity conservation and related sustainable development. They generally don't carry conservation activities directly but mobilize and invest funds from a range of sectors, before re-granting to a range of stakeholders.²² CF are managed by a governing body, that could include members of the public and private sector but is generally independent of a

²¹ Annabelle Bladon, Essam Yassin Mohammed, and E. J. Milner-Gulland (2014). A Review of Conservation Trust Funds for Sustainable Marine Resources Management: Conditions for Success. Working Paper. International Institute for Environment and Development (IIED). London.

²² Blandon, A. et al (2014) Op.cit.

national government.²³ By bringing together different donors and funding sources, they provide a strategic contribution to resource mobilization for conservation. Hence, CFs can provide transparent and accountable funding and allocation for long-term conservation initiatives and inter-sectorial collaboration and capacity building in the countries. Various regional and national funds have been created in other countries to better channel domestic and international financing for biodiversity.²⁴ However, currently there is not a clear institutional arrangement set up in Barbados for channeling and adequately managing financing for conservation efforts. Therefore, the creation of the BESF will allow to focus on the provision of funding for environmental and sustainable development projects and programs in Barbados, while maintaining a track record of supporting such activities effectively and with robust governance practices and promoting a blended finance approach for its capitalization and disbursement strategy.

2.4 Improvement of debt management for environmental and sustainable finance. A major component of the environmental governance is related to obtaining required financing for sustainable activities in coordination with the overall debt management strategy of the government. Mainstreaming environmental sustainability requires government organizations to internalize key sustainability objectives and develop the sustainable finance tools and capacities. To do this properly, adequate installed capacity is required, since adding a new degree of sophistication requires properly functioning governmental units. In this regard, it is crucial to undertake reforms to: (i) strengthen the debt management framework, in particular, the capacities of the Debt Management Office (DMO); and (ii) develop new debt management strategies and tools to promote environmental sustainability.

2.5 Strengthening the debt management framework. A country's debt management capacity is influenced by a combination of the quality of the institutions, fiscal and monetary policies, and macroeconomic environment.²⁵ Debt composition (in terms of maturity, currency, or interest rates) is an important factor inducing or exacerbating economic crisis.²⁶ During the last years, Barbados has been improving its debt management capabilities, expanding its capacity to raise public funding through sound risk management practices.²⁷ For example, Barbados, has been a major pioneer in the introduction of Hurricane Clauses in its debt contracts, providing for temporary financial relief after a catastrophic hurricane occurred which compromised the capacity of the country to serve its debt on time. Even considering these important improvements, the debt management framework still faces important challenges. A recent assessment of the institutional capacities of the DMO in Barbados, show that there are important gaps to comply with international best practices. First, Barbados would benefit from a clearer limitation of the capacity of the Central Bank to finance the government, which

²³ Ibid.

²⁴ Alpizar, F. et al (2020). Mainstreaming of natural capital and biodiversity into planning and decision-making: Cases from Latin America and the Caribbean. IDB Monograph; 823.

²⁵ Hakura, D. (2020). What is Debt Sustainability? Finance & Development. IMF.

²⁶ IMF and World Bank (2001). Guidelines for Public Debt Management.

²⁷ Prats, J. and Chiara, J. (2022). Debt Management Institutions in Latin America and the Caribbean: A Comparative Analysis. IDB Discussion Paper; and Prats, J. and Pereira, M. (2022). [Report on the Institutional Capacities of DMO in Barbados: Analysis and Roadmap](#).

ideally should be limited to emergency situations.²⁸ Second, there is a need for a development of a Medium-Term Debt Management Strategy (MTDS) to guide the objectives and mechanisms of the debt policy. A recent study found that there is no MTDS in place, which although only 17% of Caribbean countries report having it, it has been better developed in the rest of LAC (the Southern Cone reports 100% of compliance with this). Due to the above, during February 2022, Barbados reported a Debt Strategy and Sustainability score of 1.35, below the Caribbean average of 1.87 and the LAC average of 3.1.²⁹ These gaps highlight the need for a clear roadmap of reforms to improve the DMO in the medium term in Barbados.

- 2.6 Development of new debt strategies and instruments for environmental sustainability.** Given the major environmental challenges facing the Caribbean and Barbados, it is crucial that debt managers incorporate climate and environmental concerns in their debt management activities.³⁰ An environmental focus requires that debt management strategies adapt their instruments to build robust frameworks to convince investors that resources will be duly invested in environmental activities through credible execution mechanisms and following sound monitoring and reporting standards. The International Capital Markets Association (ICMA) established a set of principles that provide a robust framework and sustainability for the issuance of green bonds.³¹ Debt management strategies such as debt issuances and buybacks need to incorporate these principles to provide a more transparent use of resources for environmental purposes, increase accountability, and broaden their investor base to increase diversification and reduce costs. Barbados could develop two strategies in this regard: (i) a DFNC strategy directed to support a buyback operation to generate savings to be invested in conservation activities; and (ii) develop a thematic bond framework, following the ICMA principles to support the issuance of a Sustainability Linked Bond (SLB).³²
- 2.7** As part of these debt strategies, the use of a DFNC seems a very innovative financial approach which has the advantage of being fiscal neutral (it does not increase the debt ceiling which, in the case of Barbados, it is currently limited by the agreement with the IMF). DFNC is a type of a debt exchange³³ where the country issues a new bond and with the proceeds buys back outstanding bonds that had a higher cost, generating savings on the interest rate coupon and/or the bond principal in the process. Due to the AAA IDB sovereign guarantee, Barbados will issue a new bond at a lower cost and the expected net savings will go to

²⁸ Although this independence is limited in the Caribbean region (only 33% report it), it is more developed in the Andean Region and Central America.

²⁹ Prats, J. and Pereira, M. (2022). Op.Cit. It is expected that once a MTDS is approved (a policy supported by this program), Barbados score will increase.

³⁰ Caribbean countries debt dynamics make it important to take into consideration environmental factors. See: Mooney, H., Prats, J., Rosenblatt, D. (2021) Debt Management and Institutions in the Caribbean: Best Practices and Priorities for Reform. In: [Economics Institutions for a Resilient Caribbean](#). IDB.

³¹ Second Party Opinion (SPO) providers, as independent agencies, validate the compliance of a particular sustainability framework with the ICMA Principles and convey their opinion on the robustness of the sustainability framework to market participants.

³² An SLB is a type of thematic bond where the yields are linked to sustainability targets, in so increasing the incentives for the country to meet the objectives and the investors to monitor the project and its results.

³³ The fundamental difference with a Debt for Nature Swap (DFNS) is that in these transactions the country making the debt swap is in a situation of financial stress and debt restructuring. It is common for these DFNS to be made in a context where the country has bilateral debts with developed countries and there is some level of debt writing off.

capitalize the Conservation Trust Fund (CTF) and finally allocated to sustainable projects prioritized by the CTF's board of directors.

- 2.8 **Sector knowledge.** The project will benefit from experiences of [LAC Debt Managers Group](#) in providing technical assistance to DMOs in the region since its creation in 2005 and specially in the areas of institutional strengthening and new strategies to develop access to capital markets, including the use of sovereign guarantees and thematic bonds. Likewise, it will benefit of the IDB's Natural Capital Lab (NCL) experience in supporting the establishment of CF and BE plans. The NCL supported the creation of Chile's first Conservation Trust Fund (launched in 2021) through the Technical Cooperation (TC) REDDChain Project ([ATN/ME-17445-CH](#), approved in 2019) and which also developed a BE Recovery Plan for Costa Rica which prioritized the creation of a BE finance strategy and investible pipelines of 15 conservation and livelihood projects through the TC Development of the Natural Capital Lab ([ATN/OC-17333-RG](#), approved in 2019). Finally, this project will also benefit from TC Boosting Resilient and Inclusive Growth in The Bahamas II ([5276/OC-BH](#), approved in 2021) which targeted the modernization of the Institutional Framework for Better Environmental Resiliency by promoting a set of policies and reforms aimed at modernizing the institutional and regulatory framework to protect the environment and the natural resources in the country and to develop the BE sector, with the purpose of improving the environmental resiliency of the country.
- 2.9 The program's design will benefit also from the IDB's experience supporting sovereign debt issuances through IDB guarantees ([4699/OC-EC](#), approved in 2018). The first operation approved a US\$300 million IDB guarantee,³⁴ which made possible an issuance in January of 2020 for US\$400 million from the Republic of Ecuador. This was the first sovereign social bond issued in the world and received the award for the most innovative financial structure by [Environmental Finance](#). Two PBGs were recently approved for Bahamas ([5484/OC-BH](#), approved in 2022) for US\$200 million and for Ecuador ([5421/OC-EC](#), approved in 2021) for US\$400 to support programs directed to promote sustainable economic recovery and the BE respectively.
- 2.10 **Lessons learned.** The program will draw on previous experience in supporting the structuring of the guaranteed obligations (§2.9) and working on conservation issues (§2.8) to consider: (i) the importance of adequate and prompt engagement in bond structuring to reduce issuance time and improve market access opportunities; (ii) the need of adaptation of the IDB sovereign guarantee instrument (in terms of guarantee coverage) to the particular needs of the country with regard to pricing and expected resource mobilization, for instance, by offering the alternative of guaranteeing a loan or a bond; (iii) the importance of considering, when feasible, debt acceleration coverage (§3.12) to strengthen the structure of the guarantee and make it more attractive in the international markets; (iv) the importance of strategic coordination and alignment of workflows between the Policy Matrix and guaranteed bond issuance; (v) the relevance of the IDB sovereign instrument to improve access to international capital markets; and (vi) the vital importance to ensure a solid governance and enabling environment to ensure a successful attainment of the conservation milestones set as targets under the financial scheme.

³⁴ Supporting an investment project in the housing sector.

- 2.11 **Innovation of the program.** The program provides an innovative blended finance solution through the use of guarantees to leverage resources in an international financial debt market operation directed to promote conservation outcomes. In doing so, the financial structuring provides: (i) the first ever sustainability linked bond framework related to nature conservation; (ii) the first ever co-guaranteed financial instrument between a multilateral and a non-governmental organization (¶3.2); and (iii) a more efficient DFNC strategy in terms of transaction costs and financial benefits associated. The latter is due to the savings generated by the AAA IDB stance, as well as for the reduced transaction costs of the DFNC to be implemented.
- 2.12 **Coordination with other donors or Multilateral Development Banks (MDB) and collaboration with The Nature Conservancy (TNC).** The program is consistent with the IMF's Extended Fund Facility for Barbados which supports policies aimed at restoring fiscal and debt sustainability in the country.³⁵ Similarly, the program is coordinated with other policy-based program recently approved by the World Bank, which seeks to enhance macroeconomic and fiscal management, and promote financial resilience for a sustainable recovery.³⁶ Furthermore, TNC, a global environmental nonprofit organization, is expected to be a co-guarantor. TNC's collaboration will not only be financial but also technical. IDB and TNC have been working closely in the design of the Policy Matrix and in the structuring of the operation. Furthermore, TNC has been supporting the government in the design of the BESF and the MSP process. See ¶3.1 and ¶3.2 for more details on the complementarity of this collaboration.

B. Objectives, Components, and Expected Results

- 2.13 **Objectives and components.** The General Development Objective (GDO) of the program is to strengthen environmental sustainability in Barbados, The Specific Development Objectives (SDO) are: (i) strengthening the institutional framework to support sustainable finance and adequate natural resource management; and (ii) improving debt management capacity with a focus on environmental and financial sustainability.
- 2.14 **Component 1. Macroeconomic stability.** The objective of this component is to maintain a stable macroeconomic policy framework consistent with the program's objectives and in accordance with the provisions of the [Policy Letter](#).
- 2.15 **Component 2. Strengthening institutional capacity to finance the blue and sustainable economy.** This component will contribute to the policy objectives of: (a) strengthening the institutional framework to support sustainable finance and adequate natural resource management by: (i) sensitization of key stakeholders to the Marine Spatial Planning (MSP) process, for consensus-building on the MSP Document design; (ii) approval of the Conservation and Sustainability Commitments (CSCA) for the Ocean under biodiversity protection or 100% of the amount stated in the MSP, which will be supported by science; and (iii) strengthening the capacities of the Ministry of Environment and National

³⁵ IMF (2021). Fifth Review Under the Extended Arrangement and Requests for Waiver of Nonobservance of Performance Criterion, and Modification of Performance Criteria. IMF Country Report No. 21/128. June 2021.

³⁶ Supported policies of this program that are complementary with IDB's program include legislation aimed at improving disaster risk management; and regulatory guidelines requiring that all domestic insurers run annual natural disaster stress tests.

- Beautification, Green and Blue Economy (MENB) by developing core courses needed for the adequate execution of this project and larger Blue Economy agenda; and (b) creation of a Sustainable Trust Fund for investing in the blue and sustainable economy by: (iv) approval by the Cabinet of Barbados of the creation of the BESF, which will independently and professionally manage the resources for blue and sustainable activities; (v) appointment by the Government of Barbados of its Founding Board Member in the BESF; (vi) approval by the Cabinet of Barbados of a Conservation Funding Agreement (CFA) between the BESF and the Government of Barbados to channel the savings to conservation activities; and (vii) Government of Barbados' non-objection of the BESF draft bylaws.
- 2.16 **Component 3. Improving Barbados' debt management institutional framework and capacities.** This component will contribute to the policy objective of: (a) strengthening the debt management institutional framework by: (i) improving the fiscal and financial management government framework by approving a new Central Bank Law³⁷ that will: (1) provide greater Central Bank independence; and (2) differentiate the financial and monetary functions;³⁸ (ii) development and approval by the Cabinet of Barbados of the MTDS; (iii) diagnostic and roadmap of institutional strengthening of the Debt Management Office; and (b) developing new debt instruments to improve sustainability by: (iv) designing and implementing a strategy to develop a DFNC transaction including, among others: adequate timing and main workflows, and expected prices and benefits; and (v) approval of a Sustainability Linked Bond and Loan Framework and Reporting Guidelines, including: (1) specific target indicators; (2) associated penalties; and (3) reporting mechanisms.
- 2.17 **Main results indicators.** The indicators associated to the GDO will be the percentage of Barbados marine space under biodiversity protection. The indicators associated to the first SDO will be: (i) the Environmental, Social and Governance Regulatory Quality Index; and (ii) percentage of resources mobilized to the CF that are destined to finance conservation activities. The indicators associated to the second SDO will be: (i) debt strategy and sustainability score; and (ii) number of Sustainability-linked Bonds issued under a thematic Bond Framework following ICMA's best practices.
- 2.18 **Beneficiaries.** The main beneficiaries will be the citizens of Barbados, estimated at 287,371 in 2020,³⁹ who will enjoy the environmental and economic benefits of protected areas thanks to the creation of an enabling environment for natural resources management, sustainable investments, as well as a more sustainable oriented debt management capacity.
- 2.19 **Economic evaluation.** Based on the recommendations of the Office of Evaluation and Oversight in its 2011 Evaluability Review of Bank Projects,⁴⁰ and on the findings of the review of evaluation practices and standards for policy-based loans

³⁷ This Central Bank Law is included given the importance for the institutional environment and functioning of the public finances for this transaction. Although this condition was met in 2020, the significance of the updates to the Central Bank Law for the long-term debt sustainability in Barbados makes it a key element of the set of reforms that constitute this component.

³⁸ The program will support legislation that prohibits direct and indirect financing from the Central Bank to the government except in situations of public emergency, in which financing limits will be stipulated.

³⁹ [World Development Indicators](#).

⁴⁰ Document RE-397-1: "Currently, Economic Analysis section is computed as the maximum between the cost-benefit analysis and the cost-effectiveness analysis. Yet neither a cost-benefit analysis nor a cost-effectiveness analysis is applicable to Policy-Based Loans and Programmatic Policy-Based Loans."

by the Evaluation Cooperation Group (comprising the independent evaluation offices of the MDBs)⁴¹ As envisioned in paragraph 1.3 of document GN-2489-5 (Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-sovereign Guaranteed Operations, which indicates that it would not be necessary to include an analysis of efficiency in the use of financial resources),⁴² it was decided that economic analyses would not be conducted for these types of financing as reported to the Bank's Board of Executive Directors. Considering the policy-based nature of this PBG and that there are no identified underlying investments, this operation does not include an economic analysis. Accordingly, the economic analysis will not be considered for purposes of this program's development effectiveness matrix evaluability score.

- 2.20 **Alignment to Sustainable Development Goals (SDG).** The program is aligned to the following SDGs: (i) Reduced Inequalities (SDG#10), by having an island nation as the beneficiary country ; (ii) Responsible Consumption and Production (SDG#12), by supporting sustainable management and efficient use of natural resources; (iii) Climate Action (SDG#13), by supporting policies to combat climate change impacts on marine life; (iv) Life Below Water (SDG#14), by supporting a series of policies aimed at increasing protection of the country's marine space and promoting the BE; (v) Life on Land (SDG#15), by strengthening the capacities of the MENB.
- 2.21 **Strategic alignment.** The program is aligned with the Second Update of the Institutional Strategy (UIS) (AB-3190-2), through the development challenge of Productivity and Innovation by improving the sustainable investment climate and development of the blue/sustainable economy; and through the cross-cutting issues of: (i) Climate Change as the program will support institutional reforms to foster the required governance and investments for climate-change resilience. Furthermore, according to the [joint MDBs approach on climate finance tracking](#), 76.9% of total IDB funding for this operation result in climate finance due to the conservation objectives, including the marine protected areas that will enhance the country's resilience and environmental and climate change governance that will allow to enhance the ambition of Barbados and improve its climate risk management. This contributes to the IDB's climate finance goal of 30% of annual approvals; (ii) Environmental Sustainability, as the activities of the program contribute to the achievement of ambitious sustainability targets and the adoption of innovative financial instruments; and (iii) Institutional Capacity and the Rule of Law, as it supports the strengthening institutional frameworks and enhanced capacity for the mainstreaming of the country's NDC objectives and to further support the independence of the Central Bank. Furthermore, the program is aligned with IDB's Vision 2025 – Reinvest in the Americas: A Decade of Opportunity (AB-3266) on the objective of working towards a sustainable and inclusive economic growth. The program is also aligned with the IDB's Group Climate Change Action Plan 2021-2025 (GN-2848-9), the Climate Change Sector Framework Document (GN-2835-8) and the forthcoming draft of the Action Plan for Mainstreaming Biodiversity and Natural Capital. The operation is universally aligned with the mitigation and adaptation goals of the Paris Agreement, as it allows to support the Government of Barbados to manage its debt sustainably while aiming to achieve marine protected

⁴¹ [Evaluation Cooperation Group, 2012.](#)

⁴² According to the Evaluation Cooperation Group, Programmatic Policy-Based Loans should be evaluated based on relevance, effectiveness, and sustainability. Efficiency is not included as a criterion, since the scope of the Policy Based Loans is linked to a country's financing gap, regardless of the benefits of the project.

area targets, and the creation of the BESF to ensure resources for the sustainability and Conservation Commitments agreed by the government. Finally, it is aligned with the strategic areas of the IDB Group Country Strategy with Barbados 2019-2023 (GN-2953-1), by: (i) fostering fiscal sustainability and a more efficient public sector; and (ii) promoting higher productivity and competitiveness and supporting the government's target of being carbon neutral by 2030; and the strategic objectives of: (i) strengthening the institutional framework by supporting public sector management and public financial management systems; and (ii) promoting private sector engagement that encourages greater productivity, as well as in resilient infrastructure investments. Finally, the operation is included in the 2022 Operational Program Report (GN-3087).

III. DIMENSIONING, RISKS, IMPLEMENTATION AND MANAGEMENT PLANS

A. Dimensioning

- 3.1 **Financing instrument.** The operation will be structured as a PBG.⁴³ A PBG is a policy-based instrument in which a series of policy conditions are agreed with the government. Once the government complies with the set of policy reforms summarized in the Policy Matrix (Annex II) and the Policy Letter, the Bank will issue a guarantee to support the Guaranteed Instrument. In this way, this instrument combines: (i) an IDB sovereign guarantee;⁴⁴ and (ii) a Policy-Based Program aimed at strengthening the institutional framework to improve financial and environmental sustainability in the country. The amount of the guarantee will be up to US\$100 million from the Bank's ordinary capital. The use of the instrument is justified by: (i) the need of Barbados for advancing its environmental sustainability agenda, which will be strengthened by the program's supported policies; and (ii) by the need of improving the country's debt profile to liberate resources for sustainability activities, through the DFNC, which in turn will be made possible with the proceeds. Furthermore, the operation represents 13.5% of Barbados external gross financing requirements for 2022, which are US\$555 million. If we further consider the expected guarantee from TNC (US\$25 million, see ¶3.2) the external financing requirements will be covered by 18%. This could be relevant in case the DFNC involves the repurchase of local debt.⁴⁵ The size of the program will be important for a debt sustainability exercise in the context of the sustainability goals layout in BERT and EFF.
- 3.2 **Expected co-guarantee from TNC.** As mentioned above, TNC, with an AA rating stance, is expected to provide a co-guarantee of US\$25 million.⁴⁶ Collaboration with TNC will bring financial and technical synergies to ensure a successful outcome of the program. The TNC co-guarantee could increase the size and savings of the buyback and hence mobilize additional resources for conservation activities. TNC will act as co-guarantor supporting the Barbados sovereign bond

⁴³ See GN-2729-2 - Policy Proposal for a Flexible Guarantee Instrument Applicable to Sovereign Guaranteed Transactions. Second revised version.

⁴⁴ The beneficiaries of the guarantee will be the holders of the sovereign bond or, eventually, the bank (or a syndicate of banks) providing a loan to the government.

⁴⁵ It is worth mentioning that the program itself will not increase Barbados debt stock.

⁴⁶ This guarantee may have the following conditions: be of a second loss guarantee, be reduced in line with the government debt service, have different triggers to those of IDB's guarantee; and have a different acceleration profile, among others.

or loan. TNC will benefit from the IDB experience in supporting sovereigns through guarantees, learning a new and more cost-efficient way to support countries. In turn, the program will benefit from TNC's expertise on conservation matters. TNC will instrument the Conservation Funding Agreement for the constitution of the Conservation Fund Trust (see ¶3.19 and ¶3.20 below) and will enter into a Conservation Commitments Agreement with Barbados setting forth the conservation milestones. Approval by Cabinet of the creation of the BESF and the Conservation Commitments are part of the Policy Matrix of the program under Component 2 (see ¶2.15).⁴⁷

- 3.3 **Additionality of the guarantee.** The IDB sovereign guarantee instrument presents several advantages: (i) reduces overall financing costs for Barbados due to the IDB AAA rating; (ii) makes possible a DFNC (with the proceeds of the Guaranteed Instrument) and its outcomes in terms of marine areas protected areas; (iii) promotes the mobilization of international resources towards government financing; (iv) improves the overall debt profile for the government by reducing borrowing costs and improving its tenor compared with a non-guaranteed debt issuance; and (v) strengthens the country's technical capacity in managing more sophisticated transactions such as guaranteed international issuances under thematic frameworks.
- 3.4 **Objective of the guarantee – Debt for Nature Conversion.** The Guaranteed Instrument, guaranteed by the IDB, will support a buyback operation directed to substitute a more expensive sovereign outstanding bond. This buyback constitutes an exercise in sovereign liabilities management and is not, in any sense, part of a debt restructuring exercise, which has a different purpose. This liability exercise will generate savings for the Government of Barbados since the cost of the Guaranteed Instrument will be lower than the cost of the current Barbados outstanding bonds. The savings generated through this liability exercise will be directed towards the activities of the CF (¶3.20). Estimated savings for conservation could vary according to market conditions but are currently estimated in US\$26 million during the lifetime of the guaranteed instrument.
- 3.5 **Financial additionality of the guarantee.** The sovereign guarantee structure described in ¶3.10, will provide important economic and financial benefits to the Government of Barbados. Savings for Barbados, using the IDB sovereign guarantee (compared with a scenario of using a standalone non-guaranteed Bahamas Sovereign Bond), are expected in the magnitude of 300 basis points, which implies total savings of US\$18 million in net present value terms. These benefits will provide viability to the liability management transaction and, hence, make possible the investment in nature conservation activities.⁴⁸
- 3.6 **Guarantee terms and conditions – general considerations.** Except for the waiver being requested (¶3.12), the guarantee will comply with the Flexible

⁴⁷ Among other remedies, breach of conservation milestones may create the obligation of Barbados to make incremental payments under the financial structure contemplated. These will act as monetary incentives for the Government of Barbados to comply with the Conservation Commitments.

⁴⁸ This calculation uses the following basic assumptions: (i) a yield for a standard Barbados bond of 7.8%, such as the observed on April 4th, 2022, on Reuters; (iii) a bond tenor of 11 years with a soft bullet amortization schedule; (iv) a guarantee fee of 90 basis points on the maximum guaranteed amount; and (v) a mobilization factor of US\$25 million.

Guarantee Instrument Policy (document GN-2729-2), including: (i) once the guarantee has been issued, it will be irrevocable; (ii) the maximum term will be 20 years with a Weighted Average Life (WAL) of up to 12.75 years; and (iii) the guarantee fee will be equal to the IDB sovereign-guaranteed variable loan spread applicable to the maximum guaranteed amount. The guarantee will be triggered in the event Barbados fails to service its debt obligations under the Guaranteed Instrument, as provided in the corresponding guarantee contract.

- 3.7 **Terms and conditions of the counter-guarantee.** Prior to the issuance of the guarantee, the Bank will enter into a sovereign counter-guarantee agreement with Barbados. Among other matters, this agreement will provide that in the event the Bank needs to make a payment under the guarantee, the amount paid will be reimbursed to the Bank within 180 days. As from the date of the payment by the Bank, the total amount to be reimbursed will accrue interest at the same rate applicable to sovereign-guaranteed loans from the Bank's Ordinary Capital and will be subject to applicable policies. The Bank and Barbados may agree on a different repayment profile (see ¶3.12 for more details). A default in repayment of the counter-guarantee triggers the same treatment as that of non-performing SG loans.
- 3.8 **Noncompliance and remedies.** The counter-guarantee agreement will stipulate that whenever the Bank has determined that there is a breach of integrity requirements (determination of the existence of prohibited practices) in relation with the program or in case of nonfulfillment of the program agreed to by the Bank or of any other obligation set forth in the Counter-Guarantee Agreement, the Bank may make an advance disbursement and deposit the amount of the guarantee with a third party for the benefit of the guaranteed creditors. This advance disbursement terminates the guarantee and triggers the sovereign's reimbursement obligations under the Counter-Guarantee Agreement (see footnote 43 of policy GN-2729-2).
- 3.9 **Special contractual clauses prior to the issuance of the guarantee.** The issuance of the guarantee will be subject to the following conditions: (i) the Counter-Guarantor shall have complied with the policy conditions of this operation summarized in the Policy Matrix (Annex II), and the [Policy Letter](#); (ii) the Bank shall have negotiated and be in agreement with the terms of the guarantee contract; (iii) the Bank shall be satisfied with the structuring of the Guaranteed Instrument and its related documentation; and (iv) a Counter-Guarantee Agreement between the Bank and the Counter-Guarantor shall have entered into effect in terms acceptable to the Bank. Fulfillment of these conditions is a requirement for the Bank to issue the guarantee, as a means to ensuring due compliance with the project's operational aspects and to mitigate fiduciary risks for the Bank.
- 3.10 **Structure of the guarantee.** The final structure of the guarantee will be based on market conditions near the date of bond issuance or closing of the loan structure. Hence, definitive guarantee tenor, yield and coverage will not be known until issuance. It is expected that the transaction will take place in the second half of 2022. To improve overall debt profile of the government, the tenor will be aligned with the maximum WAL of the sovereign guarantee policy. The guaranteed coverage level will be structured to minimize the costs of resources to the government (to increase associated conservation outcomes) and to mobilize other international investors with good credit rating stance in order to increase the size

of the transaction and further mobilize resources. The sustainability linked bond structuring strategy is expected to increase the appetite and broaden the investor base, with further benefits in terms of pricing and conservation outcomes.

- 3.11 **Special considerations.** If the Guaranteed Instrument is a bond issuance, the bond is expected to be issued to institutional investors in the international market under U.S. federal regulations that regulate the private offering of securities. As it is normal in this type of transactions, both Barbados and the Bank should have the support of external firms to: (i) ensure compliance with applicable regulations including, inter alia, that the sovereign bond is not offered or sold to the public;⁴⁹ and (ii) conduct due diligence to ensure that the information relating to Barbados and the Bank contained in the bond prospectus and other marketing materials is true, correct, and complete. Among other measures aimed at reducing additional risks relating to the sovereign bond and the guarantee, it will be clarified, both in the prospectus and in marketing the sovereign bond, that: (i) the Bank is only responsible for the accuracy of its own information in the documentation related to the sovereign guaranteed bond; and (ii) the Bank's guarantee is limited to the maximum amount guaranteed.
- 3.12 **Exceptions to Bank Policies.** The following two waivers to the Bank's Flexible Guarantee Instrument Applicable to Sovereign Guaranteed Operations policy (document GN-2729-2) are being requested for the purpose of this operation. The first one concerns the provision set forth in footnote 37 of the guarantee policy, which states that "IDB SG guarantees will not cover debt acceleration, meaning that disbursements would only follow the original repayment schedule of the underlying obligation thus avoiding the risk of (i) accelerated/concentrated payments and (ii) distorting the incentive structures under stress conditions."⁵⁰ Approval of this waiver would allow the beneficiaries of the guarantee to claim, in case of default, accelerated payment of the total amount guaranteed by the Bank.⁵¹ This, in turn, would strengthen the structure of the guarantee and make it more attractive in the international markets, substantially improving its financial conditions. As stated in the policy, the following two risks have been considered: (i) greater financial exposure, i.e., concentrated payments; and (ii) distortion of incentives, i.e., incentives to trigger the guarantee in order to obtain more beneficial repayment terms from the Bank. The risk of exposure is considered low since the amount of the guarantee operation is not of a volume such as to affect the Bank's balance sheet. With respect to the risk related to the distortion of incentives, also considered low, this will be mitigated by means of a short repayment period to be included in the counter-guarantee agreement to be entered into between the government and the IDB. Any payment made by the IDB under the guarantee must be reimbursed by the government within 180 days following the date of the guarantee payment, although the IDB, in its sole discretion, may agree to more flexible repayment terms.⁵²
- 3.13 The second waiver request concerns the provision set forth in footnote 53 of the guarantee policy GN-2729-2 which states that "the repayment terms agreed

⁴⁹ The cost of the support of external firms will be determined at the time of execution but based on previous experience it could be estimated at around US\$150,000. This will be financed with TC funds.

⁵⁰ A similar waiver was requested and approved by the Board of Executive Directors in a PBG for Ecuador (PR-4948).

⁵¹ Debt acceleration would be permitted in case of Government's default or other breach of agreements set forth in the guaranteed instrument.

⁵² In accordance with Section 3.24 of the guarantee policy GN-2729-2.

between the Bank and the Sovereign will be within the tenor of the remaining WAL (after deducting the guarantee period from the original WAL), in consistency with the principle of financial neutrality between SCG guarantees and loans". This provision implies that, in the event the IDB decides to offer more flexible repayment terms to the government upon a call on the IDB guarantee, those repayment terms cannot exceed the tenor of the remaining weighted average life (WAL) (after deducting the guarantee period from the original WAL) of the guarantee operation. If, as anticipated, the guarantee provided in this operation has a relatively short WAL, e.g., 7 years, and the default occurs on year 6, then under this policy provision the flexibility for repayment offered by the IDB to the Government of Barbados will be limited to 1 year. Such a short term could be too restrictive especially considering that, if the Guaranteed Instrument is defaulted, it is likely to be having debt sustainability issues. The approval of the waiver would allow the IDB to offer a repayment period up to the maximum WAL of the instrument (12,75 years counted from the date of the guarantee agreement). The existing limit for repayment (remaining WAL of the guarantee as opposed to 12,75 years) as established in the guarantee policy, could become too restrictive when the underlying debt instrument's tenor is shorter than 12,75 years (as it is anticipated will be the case of the Guaranteed Instrument). The risk associated with this waiver also relates to the potential incentive noted above to default on the guaranteed instrument in order to access more favorable financing terms from the IDB. Similarly, to the other waiver discussed above, this risk will be managed by means of the counter-guarantee agreement, which will dictate a short repayment period of 180 days. The IDB would be able to offer a longer repayment period but: (a) only at its sole discretion; and (b) within certain limits (maximum WAL of the instrument).⁵³

B. Risks

- 3.14 **Environmental classification.** According to paragraph 2.3 of the Environmental and Social Policy Framework (ESPF) (GN-2965-23), it applies only to investment loans, investment guarantees and investment grants. Given that the present operation is guarantee in support of a Policy-Reform PBG there are no requirements from the ESPF, and the operation does not receive an environmental and social classification.
- 3.15 **Fiduciary risks.** No fiduciary risks associated with this operation have been identified. The Executing Agency (EA) has the necessary management and financial control systems for this purpose. The guarantee will be issued (together with, and on the date of issuance of the sovereign bond or loan agreement as applicable) once the conditions set out in the Counter-Guarantee agreement have been met.
- 3.16 **Other risks.** The following medium-high risk were identified: (i) an economic and financial risk that as the country continues to face the consequences of the pandemic and natural disasters, other unexpected external shocks could arise. As a result, government priorities could change, and institutional changes could be introduced affecting the achievement of the project's goals. This risk can be mitigated by closely working with the government and communicating the importance of the supported measures; (ii) an institutional risk in terms of the government's capacity to work in the program reforms in due time. Delays in completing the reforms agreed in the policy reform program, as they are conditions precedent to the guarantee issuance, could

⁵³ Idem above.

delay the DFNC. Given the scenario of rising interest rates, this could reduce the expected benefits provided by the liability management exercise and, hence, the resources available for nature conservation activities. As a mitigation of this risk, the project team has been working closely and supported the government in the design and drafting of the most relevant conditions of the policy program.

- 3.17 **Other key issues – Sustainability.** It is expected that the nature of the reforms will contribute to establish long-term institutional arrangements that will constitute the basis for an improved conservation agenda in the country. Furthermore, it is expected that the CF will be able to be financially sustainable given the commitment of the government to allocate an endowment that will contribute to generate future resources for conservation activities; and given the expected participation of other international donors and investors in the future.

C. Implementation and Management Plan

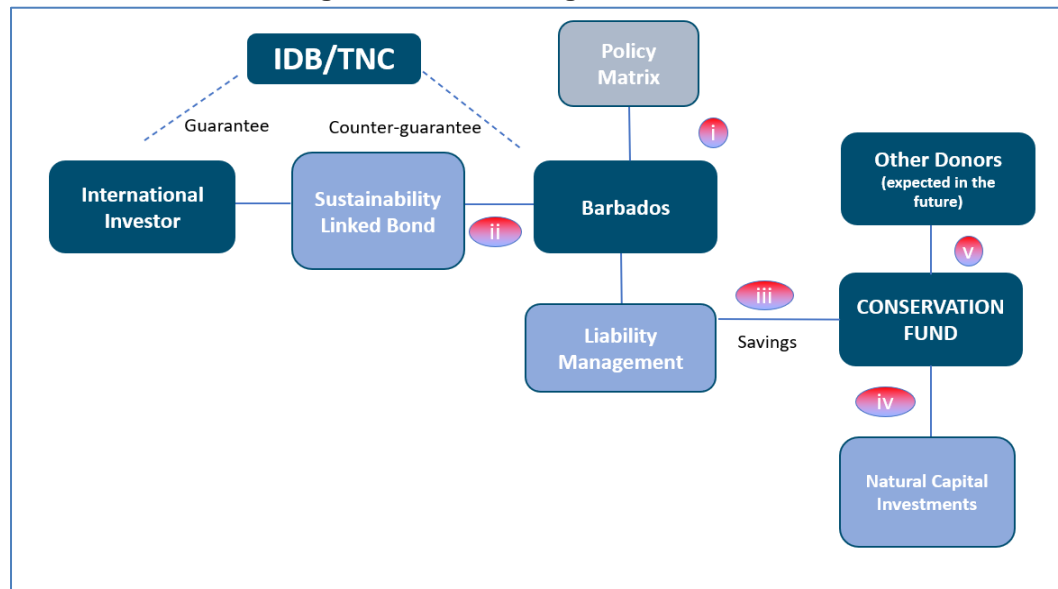
1. Summary of implementation arrangements

- 3.18 The Counter-Guarantor will be the government of Barbados and the EA will be the Ministry of Finance, Economic Affairs and Investment (MFEI). The MFEI will have the following responsibilities: (i) provide evidence that policy commitments have been fulfilled, along with any other program-related evidence that the Bank deems necessary; (ii) support the actions required for continuity in program implementation; and (iii) once the guarantee has been issued, gather the information on performance indicators needed to evaluate program outcomes. Furthermore, the MFEI, through a project coordination team, will ensure the strategic coordination with the institutions involved in the different policy measures included in the program. This will be done through biweekly coordination meetings with each focal point of the relevant stakeholders.
- 3.19 Barbados aims to achieve a DFNC with the proceeds of the Guaranteed Instrument to be supported by this operation. The sequencing and structure of this conversion will be as follows (Figure 1): (i) Barbados will comply with the IDB Policy Matrix;⁵⁴ (ii) IDB will issue a guarantee for covering sovereign bond issuance (or loan) under a sustainability bond framework; and (iii) the proceeds from the issuance will be used by the country to buyback an outstanding and more expensive bond (liability management) and the expected savings will be used to capitalize and fund the CTF, under a CFA between the government and the CTF as an independent private sector regulated entity. The CTF will provide grants to promote marine conservation activities. The CTF will operate using Good International Industry Practices to avoid and/or mitigate any potential environmental and social impacts and risks. It is expected that after the CTF is operational, the donor community will provide further provide grants and, eventually, financing to the CTF to fund conservation activities.
- 3.20 The Policy Matrix of the program is key to the structure of this operation since: (i) strengthening debt management capacities is instrumental to issue a sustainability linked debt instrument and deliver a successful liability management strategy; and (ii) having strong Conservation Commitments and the establishment of the CTF are

⁵⁴ Compliance with the Policy Matrix only enables the issuance of the guarantee and does not enable any disbursement by itself.

necessary conditions for the implementation of the DFNC objectives. The CTF will be a legally independent institution which creation, by Cabinet approval, is supported by the program. It will be managed by a governing body, which will include members of the government and civil society. CTF resources will be independently and professionally managed and will be used to provide grants to support activities aligned to conservation activities via an annual grant program. These activities could include, but are not limited to marine conservation, biodiversity preservation, waste management improvements, incorporation of sustainability practices in business associated with the blue/sustainable economy, among others.

Figure 1. DFNC through and IDB PBG



Source: IDB, 2022.

2. Summary of arrangement for monitoring of results

- 3.21 **Monitoring.** Program monitoring will oversee the compliance of the policy measures agreed to as conditions. In addition, monitoring will be provided for the outcomes of these reforms and policies at the program level through the indicators of the Results Matrix (Annex III). Specific arrangements have been made to secure the assessment of follow up lines of all outcomes.
- 3.22 **Evaluation.** The proposed methodologies for program evaluation are quantitative without causal attribution analysis. For all results indicators included in the program's results framework, the evaluation of the effectiveness of reforms considers before-and-after comparisons. The results of these evaluations will be included as part of the final evaluation of the program ([Monitoring and Evaluation Plan - REL#3](#)).

IV. POLICY LETTER

- 4.1 The [Policy Letter](#) reiterates the commitment of the government to the policy reform measures that Barbados has agreed to implement to meet the program's objectives. Additionally, the Bank and the Government of Barbados agreed on a Policy Matrix that identifies the policy actions under this operation.

Development Effectiveness Matrix		
Summary		BA-U0001
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
1. The Strategic Alignment tab in convergence shows alignment on IDB Group Strategic Priorities. The Results Matrix tab lists flagged CRF indicators		
2. The Strategic Alignment tab in convergence shows information on alignment to Country Development Objectives		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		8.1
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		1.6
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
6. Overall risks rate = magnitude of risks*likelihood		Medium Low
The Environmental and Social Data tab in convergence shows the environmental and social risk classification of the project		
IV. IDB's Role - Additionality		
Annex III Fiduciary Arrangements describes project reliance on the use of country systems (VPC/FMP Criteria)		
7. Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Evaluability Assessment Note: This project is structured as a Policy-Based Guarantee (PBG) for US\$100mm, that will support: (i) a policy program reform to strengthen environmental governance in Barbados; and (ii) a sovereign guarantee to support a debt instrument issued by the Government of Barbados in connection with a Debt for Nature Conversion with the objective of financing natural conservation activities. The general objective is to strengthen environmental sustainability in Barbados. The specific objectives are: (i) strengthening the institutional framework to support sustainable finance and adequate natural resource management; and (ii) improving debt management capacity with a focus on environmental and financial sustainability.

The diagnosis presented is adequate and the proposed policy measures generally respond to the deficiencies and opportunities identified to achieve the objectives. Evidence presented throughout the project documentation validates the interventions proposed to achieve the objectives. The results matrix exhibits vertical logic with result indicators that allow evaluating the achievement of the specific objectives.

The Monitoring plan meets the expectations for this type of loan. The Evaluation Plan includes detail on the methodology to be used to ascertain the achievement of each specific objective, namely before and after comparisons. These types of comparisons do not allow for empirical attribution of the results.

POLICY MATRIX

Objective: The General Development Objective (GDO) of the program is to strengthen environmental sustainability in Barbados. The Specific Development Objectives (SDO) are: (i) strengthening the institutional framework to support sustainable finance and adequate natural resource management; and (ii) improving debt management capacity with a focus on environmental and financial sustainability.

Components/ Policy Objectives	Policy Measure	State of Compliance with Policy Measure ¹
Component 1. Macroeconomic Sustainability		
A. Maintain a stable macroeconomic environment consistent with the program's objectives.	1.1 Maintenance of an appropriate Macroeconomic Policy Framework congruent with the program's objectives and in accordance with the provisions of the Policy Letter.	Fulfilled
Component 2: Strengthening institutional capacity to finance the blue and sustainable economy		
A. Develop an enabling environment for sustainable investments.	2.1 Sensitization of key stakeholders to the Marine Spatial Planning (MSP) process, for consensus-building on the MSP Document design.	Expected to be fulfilled in III Trimester, 2022
	2.2 Approval of the Conservation and Sustainability Commitments (CSCA) for the Ocean under biodiversity protection or 100% of the amount stated in the MSP, which will be supported by science.	Expected to be fulfilled in III Trimester, 2022
	2.3 Strengthening the capacities of the Ministry of Environment and National Beautification, Green and Blue Economy (MENB) by developing core courses needed for the adequate execution of this project and larger Blue Economy agenda.	Expected to be fulfilled in III Trimester, 2022

¹ This information is merely indicative as of the date of this document. As set forth in document GN-2729-2 (Policy for a Flexible Guarantee Instrument for Sovereign Guaranteed Operations), The macroeconomic policy-related requirements for the approval of the PBG will be substantially the same as the requirements for the approval of PBLs, namely, a valid Independent Assessment of Macroeconomic Conditions (IAMC). Notwithstanding the foregoing, given the irrevocable nature of the guarantee instrument once it becomes effective, the PBG will only require an IAMC as a condition prior to the effectiveness of the guarantee and not prior to any disbursement by the Bank under the guarantee, should such guarantee be called. Furthermore, the effectiveness of the PBG will be subject to the compliance by the Counter-Guarantor of all the policy conditions set forth in the Policy Matrix.

Components/ Policy Objectives	Policy Measure	State of Compliance with Policy Measure ¹
B. Creation of a Sustainable Trust Fund for investing in the blue and sustainable economy.	2.4 Approval by the Cabinet of Barbados of the creation of the BESF, which will independently and professionally manage the resources for blue and sustainable activities.	Expected to be fulfilled in III Trimester, 2022
	2.5 Appointment by the Government of Barbados of its Founding Board Member in the BESF.	Expected to be fulfilled in III Trimester, 2022
	2.6 Approval by the Cabinet of Barbados of a Conservation Funding Agreement (CFA) between the BESF and the Government of Barbados to channel the savings to conservation activities.	Expected to be fulfilled in III Trimester, 2022
	2.7 Government of Barbados' non-objection of the BESF draft bylaws.	Expected to be fulfilled in III Trimester, 2022
Component 3: Improving Barbados' debt management institutional framework and capacities		
A. Strengthening the debt management institutional framework.	3.1 Improving the fiscal and financial management government framework by approving a new Central Bank Law that will: (i) provide greater Central Bank independence; and (ii) differentiate the financial and monetary functions.	Fulfilled in IV Trimester, 2020 ²
	3.2 Development and approval by the Cabinet of Barbados of the Medium-Term Debt Management Strategy (MTDS).	Expected to be fulfilled in III Trimester, 2022
	3.3 Diagnostic and roadmap of institutional strengthening of the Debt Management Office.	Expected to be fulfilled in III Trimester, 2022
B. Developing new debt instruments to improve sustainability.	3.4 Design and implementation of a strategy to develop a Debt for Nature Conversion (DFNC) transaction including, among others: <ul style="list-style-type: none"> • Adequate timing and main workflows. • Expected prices and benefits. 	Expected to be fulfilled in III Trimester, 2022
	3.5 Approval of a Sustainability Linked Bond and Loan Framework and Reporting Guidelines, including: (i) specific target indicators; (ii) associated penalties; and (iii) reporting mechanisms.	Expected to be fulfilled in III Trimester, 2022

² This Central Bank Law is included given the importance for the institutional environment and functioning of the public finances for this transaction. Although this condition was met in 2020, the significance of the updates to the Central Bank Law for the long-term debt sustainability in Barbados makes it a key element of the set of reforms that constitute this component.

RESULTS MATRIX

Project objective:	The Specific Development Objectives (SDO) are: (i) strengthening the institutional framework to support sustainable finance and adequate natural resource management; and (ii) improving debt management capacity with a focus on environmental and financial sustainability. The General Development Objective (GDO) of the program is to strengthen environmental sustainability in Barbados.
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General Development Objective

Indicators	Unit of Measure	Baseline Value	Baseline Year	Expected Year for Achievement	Target	Means of Verification	Comments
General Development Objective: Strengthen environmental sustainability in Barbados							
Percentage of Barbados marine space under biodiversity protection.	%	0	2022	2026	10	Ministry of Environment and National Beautification, Green and Blue Economy (MENB)	This indicator will measure the degree of protection of marine space, following the updated Conservation Commitments made by the country. The achievement of the target would position Barbados as one of the eight countries in the world with at least 10% of marine protected area ¹ . Currently, only 10.8 km ² out of the 185,000 km ² total marine area of Barbados is fully protected (which implies a baseline of 0.006%).

Specific Development Objectives

Indicators	Unit of Measure	Baseline Value	Baseline Year	Target (2026)	Means of Verification	Comments
Specific Development Objective 1: Strengthening the institutional framework to support sustainable finance and adequate natural resource management						
ESG Regulatory Quality Index.	Units	0.48	2020	0.6	World Bank Environmental, Social and Governance Index	It is expected that the program will strengthen the organizational framework for sustainable finance and natural resources adequate management will contribute improve the regulatory quality of Barbados. This indicator captures perceptions of the ability of the government to formulate and implement sound policies and regulations that. The target is equal to the baseline plus 50% of the gap

¹ See: Marine Conservation Institute. [Marine Protection Atlas](#).

Indicators	Unit of Measure	Baseline Value	Baseline Year	Target (2026)	Means of Verification	Comments
						between the baseline and the average score for 2020 of the top three performing countries in the region.
Percentage of resources mobilized to the Conservation Fund that are destined to finance conservation activities.	%	0	2022	50	Ministry of Finance, Economic Affairs and Investment (MFEI)	This target of this indicator measures the percentage of total resources mobilized to the Fund by the target year that are destined to finance conservation activities. The remaining percentage will be destined to reserves.
Specific Development Objective 2: Improving debt management capacity with a focus on environmental and financial sustainability						
Debt strategy and sustainability score.	Number	1.35	2022	1.8	IDB: Debt strategy and sustainability score	It is expected that the program will strengthen Barbados' debt strategy and sustainability regarding its institutional capacity of debt management. It is expected that the program will help Barbados improve this score so that it reaches the average value for the Caribbean Region measured in 2022.
Number of sustainability-linked bonds issued under a thematic bond framework following ICMA best practices.	Number	0	2022	1	MFEI	It is expected the supported thematic Bond Framework will be used as a base for the issuance of a sustainability-linked bond by Barbados.
Amount mobilized for Conservation Fund.	US\$ million	0	2022	8	Trust Fund financial statement	This indicator will measure the cumulative sum of funds mobilized to the Conservation Fund since 2023. It is estimated that US\$2 million will be mobilized annually to the fund. A fraction of the funds will be destined to finance projects and another destined to reserves.

Products

Indicators	Unit of Measure	Baseline Value	Baseline Year	End of Project	Means of Verification	Responsible Entity
Component 2: Strengthening institutional capacity to finance the blue and sustainable economy						
2.1 Key stakeholders to the Marine Spatial Planning (MSP) process, for consensus-building on the MSP Document design, sensitized.	# of plans launched	0	2022	1	Official communication from the MENB confirming the meeting was held and include list of attendees.	MENB
2.2 Conservation and Sustainability Commitments (CSCA) for the Ocean under biodiversity protection or 100% of the amount stated in the MSP, which will be supported by science, approved.	# of commitments approved	0	2022	1	Official communication from the MENB and CSCA.	MENB

Indicators	Unit of Measure	Baseline Value	Baseline Year	End of Project	Means of Verification	Responsible Entity
2.3 Core courses needed for the adequate execution of this project and larger Blue Economy agenda and for strengthening of capacities of the MENB, developed.	# of courses developed	0	2022	2	Official communication from the MENB approving the training material.	MENB
2.4 Creation of the BESF, which will independently and professionally manage the resources for blue and sustainable activities, approved by the Cabinet of Barbados.	# of Conservation Funds approved	0	2022	1	Official communication from the MENB confirming Cabinet approval of the BESF.	MENB
2.5 Government's Founding Board Member in the BESF, appointed by the Government of Barbados.	# of appointed representatives	0	2022	1	Official communication from the MENB confirming the appointment of the Government's Founding Board Member in the Fund.	MENB
2.6 Conservation Funding Agreement (CFA) between the BESF and the Government of Barbados to channel the savings to conservation activities, approved by the Cabinet of Barbados.	# of agreements approved	0	2022	1	Official communication from the Government of Barbados/MFEI confirming Cabinet approval of the CFA.	MENB
2.7 Government of Barbados' non-objection of the BESF draft bylaws.	# of bylaws approved	0	2022	1	Official communication from the MENB confirming the non-objection of BESF's bylaws, including Solicitor General correspondence.	MENB
Component 3: Improving Barbados' debt management institutional framework and capacities						
3.1 Central Bank law, approved.	# of Central Bank laws approved	0	2020	1	Official communication from the MFEI confirming the approval of Central Bank Law by Parliament, with reference to the official gazette publication.	MFEI
3.2 Medium-Term Debt Management Strategy (MTDS), developed and approved by the Cabinet of Barbados.	# of strategies approved	0	2022	1	Official communication from the MFEI confirming approval by Cabinet of the MTDS strategy.	MFEI
3.3 Diagnostic and roadmap of institutional strengthening of the Debt Management Office, developed.	# of diagnoses developed	0	2022	1	Official communication from the MFEI confirming Cabinet approval of the	MFEI

Indicators	Unit of Measure	Baseline Value	Baseline Year	End of Project	Means of Verification	Responsible Entity
					institutional strategy and roadmap to strengthen the DMO.	
3.4 Strategy to develop a Debt for Nature Conversion (DFNC) transaction, designed and implemented.	# of strategies implemented	0	2022	1	Letter from the MFEI approving the DFNC Strategy.	MFEI
3.5 Sustainability Linked Bond and Loan Framework and Reporting Guidelines, including: (i) specific target indicators; (ii) associated penalties; and (iii) reporting mechanisms; approved.	# of frameworks approved	0	2022	1	Letter from the MFEI approving the Sustainability Linked Bond and Loan Framework.	MFEI

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/22

Barbados. Guarantee ____/OC-BA. Program to Support Environmental and
Economic Development in Barbados

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contracts as may be necessary for the purpose of granting a credit guarantee to support the financing and implementation of the Program to Support Environmental and Economic Development in Barbados, which will have The Government of Barbados as counter-guarantor. The credit guarantee may be granted for the amount of up to US\$100,000,000 chargeable to the resources of the Bank's Ordinary Capital, on terms substantially as set forth in the Project Summary of the Guarantee Proposal.

(Adopted on ____ 2022)