

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BARBADOS

ENHANCED ACCESS TO CREDIT FOR PRODUCTIVITY PROJECT

(BA-L1034)

LOAN PROPOSAL

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CONTENT

I.	DESCRIPTION AND RESULTS MONITORING.....	2
A.	Background, and Problem Addressed.....	2
B.	Program Justification	9
C.	Objective, Components and Characteristics	11
D.	Key Results Indicator	12
E.	Economic Analysis	12
II.	FINANCING STRUCTURE AND MAIN RISKS	13
A.	Financing Instruments	13
B.	Environmental and Social Safeguard Risks.....	13
C.	Fiduciary Risks	13
D.	Other Risks	13
III.	IMPLEMENTATION AND MANAGEMENT PLAN	14
A.	Summary of Implementation Arrangements	14
B.	Summary of Arrangements for Monitoring Results	16

ANNEXES	
Annex I	Development Effectiveness Matrix (Summary)
Annex II	Results Framework
Annex III	Fiduciary Arrangements

ELECTRONIC LINKS
REQUIRED
1. Monitoring & Evaluation Arrangements http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39018041
2. Environmental and Social Management Report (ESMR) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38991953
OPTIONAL
1. Cost-Benefit Analysis http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39021070
2. Risk Management in Projects with Sovereign Guarantee http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38993590
3. Barbados' Financial System http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38991434
4. Analysis of Small and Medium Enterprises (SME) Demand for Investment Credit http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38995189
5. Program Operative Flow http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39015871
6. Operation Regulation http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38999886
7. Common SME definition for the IDB Group. Audiovisual presentation http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39175294
8. Financial intermediation and linkages between credit and productivity in Barbados http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38999876
9. Lessons learned from other Guarantee Funds in the LAC region http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39158674
10. Administrative and Monitoring and Evaluation Budget Plan http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=39176526
11. Safeguard and Screening Form for Screening and Classification of Projects (SSF) http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38651658

ABBREVIATIONS

CBA	Cost Benefit Analysis
CBB	Central Bank of Barbados
EA	Executing Agency
ECGS	Enhanced Credit Guarantee Scheme
ESMR	Environmental and Social Management Report
FEECD	Foreign Exchange and Export Credits Department
GDP	Gross Domestic Product
GCI-9	Ninth General Increase in the Resources of the Inter-American Development Bank
IDB	Inter-American Development Bank
IFI	Intermediary Financial Institutions
IIC	Inter-American Investment Corporation
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
MSME	Micro, Small and Medium Sized Enterprise
NPV	Net Present Value
OC	Ordinary Capital
OR	Operating Regulations
PCR	Project Completion Report
SALISES	Sir Arthur Lewis Institute of Social and Economic Studies
SME	Small and Medium Enterprises
SSF	Safeguard and Screening Form for Screening and Classification of Projects
TRLF	Trade Receivables Liquidity Facility
TFP	Total Factor Productivity
US\$	Dollars of the United States of America
WAL	Weighted Average Life
WB	World Bank

PROJECT SUMMARY
BARBADOS
ENHANCED ACCESS TO CREDIT FOR PRODUCTIVITY PROJECT
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Terms and Conditions of the Financing			
Borrower: Government of Barbados Executing Agency (EA): Central Bank of Barbados (CBB)		Flexible Financing Facility^(a)	
		Amortization Period:	25 years
		Original Weighted Average Life:	15.25 years
Source^(b)	Amount (US\$)	Disbursement Period:	5 years
IDB (Ordinary Capital)	17.5 million	Grace Period:	5.5 years
		Supervision and Inspection Fee:	(d)
IDB Co-Loan (China Co-Financing Fund for Latin America and the Caribbean)^(c)	17.5 million	Interest Rate:	Based on LIBOR
		Credit Fee:	(d)
Total	35 million	Currency of Approval:	US Dollars chargeable to OC and China Co-Financing Fund
Project at a Glance			
<p>Project Objective/Description: the objective of the proposed project is to contribute to increased productivity of Small and Medium Enterprises (SME) by facilitating access to medium- and long-term credit for investment projects. In particular, the program will assist SME in accessing credit, through the provision of partial credit guarantees to Intermediary Financial Institutions (IFI), for medium and long term capital investments that allow SME to modernize and remodel their businesses (¶1.30).</p> <p>The program will have a single component of US\$35 million, which will support the establishment and funding of a partial credit Guarantee Fund, to be managed by the CBB (¶1.31).</p> <p>Special contractual conditions prior to first disbursement: the EA will provide evidence, to the Bank's satisfaction, of: (i) the formal designation of a program coordinator; (ii) the presentation of evidence that the borrower and the EA have entered into a Trust Deed, for the transfer of loan resources and execution of the program activities; and (iii) the approval and effectiveness of the Operating Regulations (OR) of the program agreed upon with the Bank (¶3.7).</p> <p>Exceptions to Bank policies: None.</p>			
<p>Project qualifies for: SEQ <input type="checkbox"/> PTI <input type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input type="checkbox"/></p>			

^(a) Under the Flexible Financing Facility (FN-655-1) the Borrower has the option to request modifications to the amortization schedule as well as currency and interest rate conversions, in all cases subject to the final amortization date and original Weighted Average Life (WAL). In considering such requests, the Bank will take into account market conditions and operational and risk management considerations.

^(b) Pursuant to Document AB-2990, the disbursement of funds from both sources of financing for this program, OC resources of the Bank and China Co-financing Fund resources, will be subject to the following maximum limits: (i) up to 15% during the first 12 months; (ii) up to 30% during the first 24 months; and (iii) up to 50% during the first 36 months. All these periods will be counted from the time the Loan operation is approved by the Board of Executive Directors (¶3.9).

^(c) This segment of the financing will be governed by the provisions set forth in document GN-2686-4. The terms and conditions for this segment of the financing will match those applicable for the segment of the Bank's Ordinary Capital resources, including the applicable provisions of the Flexible Financing Facility.

^(d) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, and Problem Addressed

- 1.1 **Macroeconomic context.** Barbados is a small open economy predominantly driven by the services, tourism and distribution sectors (20.2%, 11.8% and 22.2% of Gross Domestic Product (GDP) respectively).¹ In the last 5 years, the country has had low and negative economic growth (on average 0.5 percent over the past 5 years).² The economy had no growth in 2012 and contracted by 0.7 percent in 2013. The first 6 months of 2014³ showed a negative growth and the International Monetary Fund (IMF)⁴ estimates this trend will persist in 2014. The performance of the Barbados economy was in part affected by a 6% and 5.6% decline in long-stay arrivals in 2012 and 2013 resulting in lower income for the country.⁵ The conditions in the tourism industry also affected other economic sectors such as transport, telecommunications, distribution and trade, and construction.⁶ However, the economy is expected to grow in the medium-term, in part due to the start of new tourism-related capital projects.⁷
- 1.2 **Decrease in productivity.** Barbados's productivity (understood as Total Factor Productivity (TFP) experienced a period of improvement relative to other countries in the Caribbean and Latin America from the mid-1980s to late 1990s.⁸ However, from the early 2000s to 2008 the upward trend in relative productivity began to stagnate and even to decline when compared to the typical behavior of a larger set of countries.⁹ The decline in productivity for Barbados worsened after the 2008 financial crisis; in particular, when considering the more recently available comparable data (up to 2011), productivity in Barbados has declined by

¹ [Barbados Economic and Social Report 2012 Appendix 1.](#)

² The current economic conditions maintain a stagnant labor market with high unemployment rates. The unemployment rate has been persistently in double digits since 2009, with the latest available data as at the end of October 2013 being 11.2% up from 10% in 2009. The unemployment rate is estimated to continue increasing in 2014 with the retrenchment of over 3,000 public sector workers.

³ Central Bank of Barbados (CBB), 2014.

⁴ [IMF Article IV Consultation Mission to Barbados, 2013.](#)

⁵ Based on data from Worrel, D et al. An Analysis of the Tourism Sector in Barbados, CBB, regarding the crisis since 1980 (1982, 1985, 1991, 2002, 2009), we estimated that the correlation between changes in tourism arrivals and changes in tourism GDP is 0.9935. Given that the contribution of tourism to GDP is about 20%, the one-year direct impact of the 2008 crisis on GDP can be estimated at -1.19% of the GDP.

⁶ Sectors such as transport, telecommunications, distribution and trade, and construction have been affected due to lesser tourist visits. Clyde Mascoll, 2013. "The Promotion of Greater Inter-Sectoral Linkages with the Tourism Sector in the Barbados Economy", The Barbados Private Sector Association.

⁷ Macroeconomic Analysis, CCB/CBA, Inter-American Development Bank (IDB), Aug 2014.

⁸ It is important to stress here the distinction between TFP and other widely used productivity measures like "labor productivity" or the concept of "competitiveness" covered in surveys like the "Enterprise Survey" World Bank (WB) and indices like those in the "Doing Business" report (IFC and WB).

⁹ Relative productivity stagnates when compared to the typical (median) evolution of productivity observed in Jamaica and the Dominican Republic, Honduras, and Guatemala; when the comparison group includes countries like Mexico and Ecuador, Barbados shows a decline in relative productivity since the early 2000s.

20% since 2008 when compared to Jamaica and the Dominican Republic.¹⁰ Productivity may be affected due to numerous reasons¹¹, one of which is that firms may constrain their investment allocation in improvements, modernization and innovation when faced with limitations to their own capital and to overall financing conditions.

1.3 Credit and productivity in Barbados. Finance and access to credit have an important link to productivity in Barbados.¹² A number of studies have shown the importance of the private sector in investments in traded and non-traded sectors,¹³ as well as the impact of financial development on the TFP and economic growth in Barbados.¹⁴ Also, financial intermediation in Barbados has not yet developed the breadth, depth and sophistication that are necessary to facilitate economic growth and market capitalization remains low.¹⁵ This situation has led to relatively low levels of finance and credit access¹⁶ irrespective of the phase of the business cycle in the country. The situation is aggravated in the current macroeconomic context.¹⁷

1.4 Lack of access to credit by Small and Medium Enterprises (SME).¹⁸ Barbadian firms need to improve their performance to preserve their

¹⁰ CMF calculations based on Federal Reserve Economic Data, Federal Reserve Bank of St. Louis.

¹¹ For instance, market size, market structure, trade patterns and institutional and bureaucratic conditions (Chaney, T. and Ralph, O. (2013); Ehrl, P., (2013); Hall, R. and Jones, C. (1999)).

¹² See [Financial intermediation and linkages between credit and productivity in Barbados](#) for detailed analysis.

¹³ McKenzie, S. and R. Craigwell, Determinants of investments in the traded and non-traded sectors in Barbados, CBB, 2012.

¹⁴ See in particular the analysis of: Wood, A. (1993). Financial Development and Economic Growth in Barbados: Causal Evidence. *Savings and Development*, 4, 379-390; Craigwell, R., Downes, D., & Howard, M. (2001). The Finance-Growth Nexus: A Multivariate VAR Analysis of a Small Open Economy. *Savings and Development*, 2, 209-223.; Iyare, S., & Moore, W. (2011). Financial Sector Development and Growth in Small Open Economies. *Applied Economics*, 43, 1289-1297; and Lorde, T., & Osaretin, I. (2004). The Importance of Financial Sector Reform: Development and Efficiency in Caribbean Banking. XXXVIth Annual Monetary Studies Conference. Trinidad and Tobago: Caribbean Centre for Money and Finance.

¹⁵ CBB Working Paper #13/11.

¹⁶ Craigwell, R. 2010. Lending behavior and credit rationing in Barbados: a regime switching model. CBB.

¹⁷ Such contraction of productivity due to limited access to finance are consistent with the results of Mendoza (2010), Jermann and Quadrini (2009) that show how TFP can decline following a financial shock and of Amo-Yartey (2012) which show that macroeconomic vulnerabilities were already increasing in Barbados since 2006 due to the high public debt and the deterioration in the net financial position with nonresidents. See Jermann, U. and Quadrini, V. 2009. "Macroeconomic effects of financial shocks"; Mendoza, E. 2010. "Sudden stops, financial crises, and leverage"; Amo-Yartey, C. 2012. "Barbados: sectorial balance sheet mismatches and macroeconomic vulnerabilities".

¹⁸ Barbados has a definition of small business for the purpose of participation in [the Small Businesses Development Act](#), as firms with not more than B\$2 million annual sales and a maximum of 25 employees. However, Barbados does not have an official definition of "SME". While the government is currently working on a comprehensive definition that would also include medium size enterprises, there is currently not a formal proposal under discussion and a definition is not expected in the near future. Because of the lack of a country wide accepted definition of SME, for the purposes of the full disbursement period of the whole program, SME will be defined according to the IDB/IIC default definition for C and D countries (i.e. SME with up to US\$10 million in assets or yearly revenues or up to 200 employees, See [Common SME definition for the IDB Group. Audiovisual presentation](#)), since Barbados qualifies as C country under IDB.

competitiveness, particularly in key economic sectors such as tourism,¹⁹ and to diversify in the services, construction and manufacturing sectors.^{20,21} At a given level of demand, to achieve better business performance against other competing local or foreign companies, firms will need to enhance their competitiveness levels, either by producing at lower costs or by offering products with a higher value that would justify a higher price (Porter and van der Linde).²² To achieve this objective, companies need to be able to invest, improve and innovate, with access to credit at terms that are suitable to cash flows and in a timeframe for projects to attain optimal productivity.

- 1.5 Existing levels of credit for investments in Barbados have, however, been relatively moderate. Over 60% of the available credit in Barbados in 2013 was allocated to personal consumption and government, whereas only 33% was dedicated to financing the needs of private firms in productive sectors.²³
- 1.6 According to the survey conducted by the World Bank (WB)-International Finance Corporation (IFC) (2010)²⁴ and the analysis of the World Economic Forum's Global Competitiveness Report on Barbados (2013-14),²⁵ access to finance has been the single most problematic factor for doing business in Barbados, as shown in [figure 1](#).
- 1.7 The problem that the project seeks to address is the limited access to credit for investments, which is particularly relevant in the case of SME, which is defined for the purpose of this project as SME according to the default definition of IDB/IIC C and D countries. The limited availability of a suitable credit tenor (i.e. of more than 2 years) for investments makes it difficult for many SME to enhance the scale of their operations to their optimal levels. This situation limits the efficient allocation of factors towards more productive projects and activities (with most of the medium- and long-term credit currently allocated to larger companies with higher levels of capitalization, and not necessarily to better projects developed by entrepreneurs with restricted access to credit).²⁶
- 1.8 Therefore, most SME must rely on shorter term credits for their investments, limiting their possibilities for expansion and increasing their reliance on internal

¹⁹ [World Economic Outlook, October 2013](#).

²⁰ [Analysis of SME Demand for Investment Credit](#).

²¹ The need to enhance productivity is higher in the presence of distinctly negative macroeconomic conditions.

²² Porter, M., van der Linde, C., "Towards a New Conception of the Environment Competitiveness Relationship". Journal of Economic Perspectives, Volume 9, Number 4, 1995.

²³ [CBB](#), 2014.

²⁴ WB (2010). "[Enterprise Survey for Barbados](#)". Washington, D.C.

²⁵ [World Economic Forum, The Global Competitiveness Report 2013-2014](#).

²⁶ Paul Holden, 2011. "Enhancing Access to Finance in the Caribbean". IADB Discussion Paper.

funds.²⁷ Given that production processes do not follow fixed proportion technologies (except in very stylized theoretical environments), even with the presence of other factors restricting productivity (such as less than perfect bureaucracies or educational systems), it can still be expected that improving access to credit for investment will facilitate their transition towards more efficient and productive companies.

- 1.9 SME play a crucial role for economic growth in Barbados given their productive diversification, competitiveness and the generation of jobs and income. From the analysis of available data SME are mainly concentrated in manufacturing (400 firms), hotels and restaurants (381 firms), services (1,250 firms) and wholesale and retail (1,500 firms). These sectors account for about 58.5% of the GDP activity and 41% of the employed labor.
- 1.10 From the demand side there are many difficulties faced by SME in accessing credit, including:²⁸ (i) low standards of accounting and financial records on their activities, performance and projects, as well as resistance to sharing information; (ii) limited administrative and financial management capacity; and (iii) lower levels of capitalization and ability to provide collateral.
- 1.11 Derived of an [Analysis of SME Demand for Investment Credit for which a Guarantee Fund would be needed](#) specifically prepared for this program, the inability to provide collateral was considered the main barrier to access to credit in Barbados. Data from the WB and the Sir Arthur Lewis Institute of Social and Economic Studies (SALISES) shows that, despite the loan size that SME received in 2009/2010, the value of collateral in relation to the value of the loans ranged in the median from 133% to 154% with an overall mean of 145%.²⁹ A recent independent survey undertaken by the IDB among representatives of 94 SME confirmed the overall perception that excessive collateral requirements are the main barrier to access to credit.³⁰
- 1.12 The rate of firm formality in Barbados is about 83%, with 15 years being an average age of businesses,³¹ when they are able to develop credit history.

²⁷ From an analysis of data from the WB's Enterprises Survey for Barbados for 2010 and from a Small Business Data Collection Project (for 400 manufacturing firms, prepared by SALISES, University of the West Indies, Barbados. March 2009), the majority of SME that had acquired fixed assets in 2009/2010, were financed mostly from internal funds, with limited utilization of bank credit. Furthermore, as explained in ¶1.5 most of the financing available (60%) in Barbados has been of consumption and hence of short term.

²⁸ IDB, 2005, "Unlocking Credit: The Quest for Deep and Stable Bank Lending", Washington D.C.

²⁹ WB (2010) "[Enterprise Survey for Barbados](#)". Washington, D.C.

³⁰ Based on data collected by the [Enterprise Survey](#), the following proportion of firms declared that collateral had been required in their loans (per type): land and buildings (72.3%), equipment (37.5%), securities (16.7%), and personal assets (31.3%). For many enterprises the need for land and building as collateral is an important barrier to accessing credit. According to SALISES, 64.2% of manufacturing SME rented or leased their current premises. While renting/leasing of space may enable entrepreneurs to establish businesses without having to purchase property, it negates their ability to utilize property as collateral.

³¹ Compete Caribbean (2011) "Enterprise Survey Country Bulletin", Barbados.

According to Intermediary Financial Institutions (IFI) interviewed and surveyed³² regarding their risk appetite for SME lending, businesses that present potentially viable investment projects usually lack sufficient collateral to obtain funding (in some cases the financial intermediaries even consider personal property as well as business assets as collateral). The financial intermediaries suggested that once the risk and credit assessments have been done for the project and the firm, only partial funding will be available if the collateral is not sufficient, making collateral the main reason for the lack of access to full financing.

- 1.13 The [Analysis of SME Demand for Investment Credit](#) identified that there is a potential demand for Guarantee to cover credit needs of at least US\$52.5 million, from which 90 % would correspond to demand from SME with credit history but with limited collateral available to cover additional investments to modernize and diversify business, and another 10% of demand from startups and SME investing in new emerging sectors (such as information technology, environmental business, nontraditional agriculture, renewable energy, etc).
- 1.14 **The financial system and main barriers to providing credit to SME investment.** In spite of macroeconomic conditions during the last years, the Barbadian financial system has remained generally stable and well capitalized, with high levels of liquidity, and moderately profitable operations but with increased non-performing loans. Between 2009 and 2011, the assets of commercial banks were stagnant due to a decline in foreign currency liquidity and investments. These have increased since 2012, resulting in resurgence in asset growth, mostly driven by nearly doubled holdings of government debt.³³
- 1.15 Commercial banks are the most important source of credit to private sector investments in Barbados. All commercial banks operating in Barbados are subsidiaries or branches of regional or international banks.³⁴ The top three banks account for 75% of total bank assets in Barbados and the loan exposure is concentrated in a few main sectors that drive the economy.³⁵ Recently, trust and finance companies (Non-Bank Financial Institutions), which generally followed a personal banking business model, have been diversifying their lending portfolio to also provide business loans (accounting for 6.5% of total loans in the system). Credit Unions have mainly been a source of credit for consumer personal loans.
- 1.16 Because the regional or international nature of most commercial banks, their risk assessment practices and financial products are not scaled down to the specific

³² See [Analysis of SME Demand for Investment Credit](#).

³³ A more detail description is provided at the [Barbados' Financial System](#).

³⁴ Bank of Nova Scotia, Republic Bank, First Citizens Bank, CIBC FirstCaribbean International Bank, Royal Bank of Canada and Citibank Ltd - each of the 6 banks is owned by a foreign parent – three based in Canada, two in Trinidad and Tobago and one in the United States of America.

³⁵ At November 2013, the business loan book to the private sector of commercial Banks was 25% of the total loan portfolio mainly focusing on professional and other services (including real estate development), tourism and distribution. CBB, Database, 2014.

conditions of local business in Barbados, particularly to SME. In interviews during the program preparation,³⁶ commercial banks explained that their credit policies and operations are approved from their corporate headquarters, often limiting the country risk allocation, the exposure to specific market niches and segments, and the conditions required to fulfill loans.

- 1.17 Banks have tended to lend to large, well-established companies. From information collected for this program from local commercial banks and non-bank financial institutions lending to private business,³⁷ loans to SME represented 35% of the total corporate loan portfolio, and just 60% of the total loan requests by SME were approved. An important reason for this behavior is the fact that assessing the risk components is often difficult because of the small market size, distortions, and the lack of benchmarks against which to measure specific risk elements.³⁸ In the interviews with IDB,³⁹ the banks claimed to have a list of potential projects from SME that were in their view bankable and financially viable, however these could not be financed because SME could not cover the requirements for collateral. Since the market is small and there is no specific sector to which banks are interested in lending directly, the IFI often consider financing SME for business expansion, energy efficiency and capital investment projects⁴⁰ but all lenders, without distinction, present stiff collateral requirements regardless of the size of the borrowers, harming business opportunities for the firms facing the greatest constraints on collateral.
- 1.18 This situation is further aggravated by the fact that the perception of credit risk has been recently compounded by the international financial crisis and its consequences on the local economy (the financial system has experienced a significant increase in non-performing loans from 2.8% in 2007 to a high of 12.9% in 2012 and about 10.5% in 2014).⁴¹ While the bulk of the non-performing loans are in the substandard category, there has been a notable increase in doubtful loans tied to the overall macroeconomic conditions in the hotel and restaurant sector (24%), real estate industry (19%) and individual loans (42%).⁴² This situation impacted in particular the risk perception from IFI of private investments in the tourism sector resulting in decreasing loans and higher collateral requirements for firms in this segment.⁴³
- 1.19 Given the credit risk perception of IFI in Barbados, as highlighted in ¶1.11 and ¶1.12, the banking system in general has tended to compensate its risk perception by requiring high levels of collateral for lending operations. These practices have

³⁶ See [Analysis of SME Demand for Investment Credit](#).

³⁷ See [Analysis of SME Demand for Investment Credit](#).

³⁸ Paul Holden, 2011. "Enhancing Access to Finance in the Caribbean" IDB Discussion Paper.

³⁹ See [Analysis of SME Demand for Investment Credit](#).

⁴⁰ See [Analysis of SME Demand for Investment Credit](#).

⁴¹ Central Bank Financial Stability Update, 2014.

⁴² Central Bank Financial Stability Update, 2013.

⁴³ Central Bank Financial Stability Update, 2013.

added difficulty for SME which tend to have more limited collateral alternatives and operate in markets not yet used to using cash flows as collateral.⁴⁴

- 1.20 **Government initiatives.** Barbados has made a longstanding concerted effort to develop its public policy to support the smaller firms in the country. In 1999, the government enacted the [Small Business Development Act](#), which provided a framework of activities aimed at supporting micro and small enterprises through incentives (fiscal and others) and technical support. The government has more recently developed an institutional framework to spur SME entrepreneurship through the Ministry of Industry, International Business, Commerce and Small Business Development. The “[Barbados Growth and Development Strategy Document for 2013-2020](#)” has a section dedicated to Micro, Small and Medium Sized Enterprise (MSME) Development (Section 4.3.5), in which it highlights the government’s commitment to provide for greater access to capital for MSME and to further promote their growth, productivity and revenue generation. The policy also highlights the importance of the private sector in the country’s economic growth, the government’s commitment to promote business facilitation, and the role that financial institutions play in promoting investments.
- 1.21 As part of this public policy framework, over the last 10 years the government has been developing a number of dedicated funding initiatives amounting to about US\$80 million comprising: the Enterprise Growth Fund Limited (created in January 1998), the Caribbean Financial Services Corporation and the Youth Entrepreneurship Scheme, each with a specific sector allocation such as tourism and small hotels investment, agricultural development, industrial investment and employment.⁴⁵ The government, through the Central Bank of Barbados (CBB), also offers financing and guarantee schemes to support credit and export promotion. There are different types of schemes provided by the CBB,⁴⁶ with the most important mechanism being the Enhanced Credit Guarantee Scheme (ECGS) and the Trade Receivables Liquidity Facility (TRLF).
- 1.22 These schemes have had limited effectiveness to address financing needs for SME: (i) their eligibility criteria has been sector or niche based, too narrow to support the comprehensive needs of SME financing; (ii) their terms and conditions have not been sufficiently attractive for the financial institutions; (iii) their non-standardized requirements from one scheme to another have created a perception with financial institutions that applying for a guarantee is cumbersome; (iv) there has been limited outreach with financial institutions and potential beneficiaries to developed a sustained pipeline; and (v) the practice

⁴⁴ For example from savings from energy efficiency investments.

⁴⁵ For a more detailed analysis see Lindsay Holder and Clyde Mascoll, “A Policy Framework To Incentivize The Micro Business Sector In Barbados, The Barbados Private Sector Association, July 2013.

⁴⁶ Products managed by the CBB include: ECGS, the TRLF, Tourism Loan Guarantee Scheme, Barbados Investment Fund, Export Credit Insurance Scheme, Export Finance Guarantee Scheme, Export Rediscount Facility, Industrial Credit Fund. [CBB, 2014](#). These schemes will continue to operate independently and the design lessons from the current proposed program may also provide lessons learned for these schemes.

when filing claims has created a perception with financial institutions that these can only be submitted once the company has been liquidated and that it can be particularly of contentious justification. Taking into consideration these lessons learned, the SME Guarantee Fund proposes to set up a fully differentiated and dedicated scheme for SME in Barbados, with sufficiently broad eligibility criteria to comprehensively support SME needs, clear and swift operating regulations to address concerns from the financial institutions, and managed separately to cater to IDB requirements to segregate funds and provide specific reporting).⁴⁷ This SME Guarantee Fund has been developed in conjunction with the CBB, representatives of the financial institutions and with representatives of SME to provide an effective public policy instrument to encourage the participation of the banking system in the downscaling efforts of financing to SME in Barbados.

B. Program Justification

- 1.23 The proposed program will provide a guarantee mechanism to promote investment projects, with particular emphasis on SME. The project will be in the form of a lending operation to the government to create a partial credit Guarantee Fund to compensate for the existing lack of collateral from SME for loans from commercial banks. Given that Guarantee Fund design has been developed based on the feedback of and close consultation with IFIs and local SMEs, it is expected that in the long term, the guarantees undertaken under the project will have a demonstrative effect that will stimulate a higher risk appetite in commercial banks for the SME segment and lead to increased financing in this market segment.
- 1.24 The specific conditions and operational guidelines of the Guarantee Fund, described in detail in the [Operating Regulations](#) (OR), were designed based on the experience of and lessons learned by the Central Bank in managing guarantee schemes, and in close consultation with the CBB, local IFI, and market participants. Of particular note, the definition of SME will be based on the current IDB/IIC standards of up to US\$10 million in assets or yearly revenue, or up to 200 employees. The guarantee will be for up to US\$1 million per individual loan and will provide coverage of up to 80% of the loan amount.⁴⁸
- 1.25 Based on an analysis of different scenarios of potential absorption of additional financing needed to cover investment projects by SME,⁴⁹ it was concluded that a Guarantee Fund of US\$35 million would absorb most (83%) of the lowest estimated demand from SME (i.e. US\$52.5 million, see also ¶1.13 above). Assuming a coverage ratio of up to 80%, the fund would expect to leverage a

⁴⁷ See [Analysis of SME Demand for Investment Credit](#), in lessons learned through bilateral interviews and a survey undertaken among the IFI and SME about the Guarantee Fund requirements and operational conditions, including a round table discussion between the IFIs, the government of Barbados and the project team about the program's proposed scheme.

⁴⁸ Based on their risk assessment, IFIs will be able to request a guarantee from 1% to 80% of the loan amount.

⁴⁹ [Analysis of SME Demand for Investment Credit](#).

minimum of US\$43.75 million in credit and to support about 202 investment loans to creditworthy SME.

- 1.26 There are several successful SME guarantee fund experiences in the region (Chile, Peru and Colombia) on which the program can draw for positive demonstration effect experience and lessons learned.⁵⁰ Through these schemes, SME were able to obtain suitable financing amounts, terms and conditions relative to their needs, while the interventions showed generally positive trends in investment, productivity, employment, and revenues. Several lessons have been drawn from these experiences to improve the design and implementation of the SME Guarantee Fund in Barbados: (i) the guarantee mechanism has been designed to support medium- to long-term investment loans to maximize the project's effect on productivity, thus avoiding the pitfall of broad use of proceeds in guarantee schemes that ended up supporting a large proportion of short-term transactions (therefore having a reduced impact on productivity)⁵¹; and (ii) the guarantee mechanism will maintain a solid capital base to properly support the portfolio of guarantees, adding suitable risk mechanisms to assure proper origination, approval, and monitoring by the IFI (such as providing a partial credit guarantee so that IFI commit their own capital to the loans).
- 1.27 Finally, the need to supply longer term credit to SME for investment is justified by diagnoses and lessons learned from the work undertaken by the Multilateral Investment Fund in Barbados in support of small businesses, as well as from the work of Compete Caribbean via the Private Sector Assessment Report.
- 1.28 **The country's sector strategy.** As mentioned in paragraph 1.20 above, the project is also consistent with the "Barbados Growth and Development Strategy 2013-2020" and with the Barbados "Small Business Development Act" of 2002.
- 1.29 **Alignment with Ninth General Increase in the Resources of the IDB (GCI-9) and the Bank's strategies and policies.** The project is justified given that it reflects the priorities to private sector development through private sector investments and support the Barbadian financial system through ongoing dialogue between the Bank and the government.⁵² The project is also consistent with the findings of the Country Program Evaluation: Barbados 2010-2013 (RE-460-1) that was done by the IDB's Office of Evaluation and Oversight, which encourages initiatives to strengthen the relevance and development effectiveness of the Bank's program in Barbados through greater engagement with the private sector.

⁵⁰ While these examples are based on different country profiles and do not specifically address the functionality of a guarantee in times of crisis, some valuable lessons can be drawn upon.

⁵¹ For example, in Chile beneficiaries registered an increase of 32% in sales and 24% in profits when compared to non-beneficiaries, while in Colombia beneficiaries showed a more modest increase of 6% in sales (due a higher proportion of short-term working capital guarantees). See [Lessons learned from other Guarantee Funds in the Latin America and Caribbean region](#), for more detailed explanation and bibliography regarding the examples referred to in this paragraph.

⁵² A new Country Strategy with Barbados is being prepared at present.

While the promotion of private sector investments and SME is not directly referred to in the strategy for Barbados, the program would support private sector investments in several sectors identified by the IDB country strategy with Barbados 2009-2013 (GN-2539), such as renewable energy and sustainable practices. The program will contribute to the lending program priorities of the GCI-9 (AB-2764) in the priority of supporting development in small and vulnerable countries (such as Barbados). It will further contribute to the regional development goals of supporting institutions for growth/social welfare through the promotion of firms using banks to finance investments; and to the product of micro/small/medium productive firms financed, as defined in the Results Framework. Finally, the program is aligned with the Support to SME and Financial Access/Supervision Sector Framework Document (GN-2768-3), through the influence that credit has on the increase in levels of productivity and the need to promote financing programs for productive development.

C. Objective, Components and Characteristics

- 1.30 The objective of the proposed project is to contribute to increased productivity of SME by facilitating access to medium- and long-term credit for investment projects. In particular, the program will assist SME in accessing credit, through the provision of partial credit guarantees to IFI, for medium and long term capital investments that allow SME to modernize and remodel their businesses.
- 1.31 **Single component - Guarantee Fund.** The program will provide the financing to support the establishment and funding of a partial credit Guarantee Fund, to be managed by the CBB, to facilitate access to medium- and long-term financing for SME through eligible IFI (see [Program Operative Flow](#)). The program will have a single component of US\$34.8 million directed to a segregated account at the CBB for the Fund to guarantee individual loans from IFI to SME for eligible sub-projects. An amount of US\$0.2 million will be set aside to cover the administrative, monitoring and evaluation, and external audit cost of the program (see [Administrative and Monitoring and Evaluation Budget Table](#)).
- 1.32 The guarantees will be issued to eligible IFI to cover individual investments loans to be undertaken by eligible SME. The guarantee will be for up to US\$1 million per individual eligible SME loan and will provide coverage of up to 80% of the loan amount for up to 10 years. Eligible firms will be incorporated entities registered to operate in Barbados and compliant with the necessary licenses and permits, and with up to US\$10 million in assets or yearly revenues or up to 200 employees; these firms will have undergone an appropriate credit risk assessment by a participating IFI to obtain a loan. The loans will be eligible for the agriculture, commerce, industry and services sectors, to finance investments related to the purchase of land and buildings, the purchase of equipment and machinery, the expansion and improvement of infrastructure, the implementation of new technology, techniques and processes, the increase in permanent working

capital (when working capital is tied to an investment loan), all directly related to the company's activity.⁵³ The participating IFIs will be any incorporated commercial bank, finance company, trust, finance, or merchant bank licensed to operate in Barbados or any financial institution that obtains certification from the CBB Bank Supervision to participate in the scheme. The participating IFI will be obliged to maintain non-performing loans to total loans below 15%, not have more than 10 claims filed, provide periodic reports, and have a signed agreement to participate in the fund. The IDB will not require interest rate pricing on the guaranteed loans, this will be determined by the IFI considering its own pricing model⁵⁴. The specific procedures, conditions and requirements of the Guarantee Fund operations, the eligibility criteria for the participating IFI, and criteria for eligible projects of SME are described in the [OR](#). General execution provisions are provided for in Section III. A. below.

- 1.33 To complement the operation, a US\$240,000 (plus US\$60,000 in kind local counterpart) Technical Cooperation Operational Input (BA-T1032) has been requested to promote the mechanism, and support the involvement of IFI and SME. The operation will also complement existing efforts by the IDB to promote the competitiveness of the Barbados private sector, including efforts mentioned in ¶1.27 above.

D. Key Results Indicator

- 1.34 The main impacts of the program will be the improvement of: (i) average TFP growth rate; (ii) productive sectors financing; and (iii) access to finance. The results will be an increase in real sales per worker of the beneficiary firms, loans and investments for firms and longer tenor loans. Finally, the expected products are the number of guaranteed loans derived from the program.

E. Economic Analysis

- 1.35 The Cost Benefit Analysis (CBA) is based on the profile of the typical firm expected to benefit from the government guarantee. Based on this profile, the CBA computes the expected change in value added resulting from the improved access to credit. The central result indicates that the expected Net Present Value (NPV) of the program is US\$29.7 million. The sensibilization analysis performed on key variables (productivity, Non-Performing Loans, macroeconomic

⁵³ To the extent that imperfect capital markets and suboptimal levels of financial intermediation prevent the allocation of productive factors into those firms and sectors with the best opportunities and higher potential and actual productivity, the availability of the line to all these uses can generate productivity gains (even if not used exclusively in the most obvious destinies of implementation of new technologies, techniques, and processes). For a discussion on factor allocation and the impact on productivity see Restuccia, D., & Rogerson, R. (2008). Policy distortions and aggregate productivity with heterogeneous establishments. *Review of Economic Dynamics*, 11(4), 707-720; Hsieh, C. T., & Klenow, P. J. (2009). Misallocation and Manufacturing TFP in China and India. *The Quarterly Journal of Economics*, 124(4), 1403-1448.

⁵⁴ Indirectly, by virtue of having a guaranteed loan, any IFI that has a risk-based pricing model would be able to charge a lower interest rate vis-à-vis a non-guaranteed loan of similar characteristics.

performance, and cost reductions) indicates that the program's NPV remains positive for a wide range of scenarios, based on a discount rate of 12%.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instruments

- 2.1 **Origin and use of resources.** The Global Credit Program will be financed through a loan of up to US\$17.5 million from the resources of Ordinary Capital (OC) of the Bank, and a loan of up to US\$17.5 million from the resources of the China Co-financing Fund for Latin America and the Caribbean (LAC), administered by the Bank. The resources of the program will be devoted to the unique component of the program under which the Executing Agency (EA) will establish and fund the partial credit Guarantee Fund pursuant to terms and conditions provided for in the OR.

B. Environmental and Social Risks

- 2.2 In accordance with Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (OP-703) and because the resources from this operation will be used to establish and capitalize a partial credit Guarantee Fund, no ex-ante environmental impact classification is required. In spite of this, for the purposes of the program the CBB will feature an environmental management plan that includes an exclusion list, which is agreed with the Bank and is incorporated into the OR (see [Environmental and Social Management Report \(ESMR\)](#)).

C. Fiduciary Risks

- 2.3 Fiduciary risks in financial and procurement management are considered medium-low (see Annex III). The analysis of institutional capacity of the CBB has identified that it has the necessary administrative, fiduciary and control mechanisms to provide and to maintain a transparent and effective administration of the Fund resources. The analysis shows that, since it is the first time the CBB will be executing an IDB operation, guidance will be provided by the IDB on IDB's financial management procedures and requirements.

D. Other Risks

- 2.4 There is a risk that deterioration of macroeconomic framework as a result of external shocks or shift in macroeconomic policies or fiscal situation and economic conditions in the country could affect credit demand by IFI and SME. However, the demand for credit will be spurred in the medium and long term by tourism related capital projects to promote diversification in the tourism sector. There is no direct way to mitigate macroeconomic risk. To reduce the probability to maintain unutilized capital in the fund, the loan will be provided through IDB partial disbursements based on the pipeline of demand for the guarantee from IFI, and the OR will provide for possibility to review the fund criteria and operations.

- 2.5 There is a risk in terms of the overall sustainability of the program, in relation to the losses from claims of non-performing loans overtaking the revenues that the program can generate through the guarantee fees. Based on an [economic analysis](#) of several scenarios, with varying terms, conditions and duration, the program has been designed to meet fiduciary sustainability until IDB funds are fully amortized. Once IDB financing is amortized, the program will continue to operate and to create a long-term demonstration effect to influence IFI to satisfy SME credit demand in the markets, in particular since: (i) the program is based on a long-term commitment of the Government of Barbados aimed at strengthening access to credit to SME; (ii) it is estimated from the economic analysis that the program will have a positive return; and (iii) according to the OR, dividends and recovering from the proceeds of the fund will be reinvested in the fund.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of Implementation Arrangements

- 3.1 **Borrower and EA.** The Government of Barbados in its capacity as the Borrower of the loan, will through the Ministry of Finance and Economic Affairs, supervise and oversee the execution of the Barbados SME Guarantee Fund. The CBB will be the EA of the Fund, with the necessary administrative, fiduciary and control mechanisms to provide and to maintain a transparent and effective administration of the program and the partial credit Guarantee Fund (See Annex III).
- 3.2 **Execution and Administration.** As explained in more detail in the OR, the Guarantee Fund will be overseen by an Advisory Committee and managed by the Foreign Exchange and Export Credits Department (FEECD) of the CBB. The FEECD will be responsible for: (i) preparing, implementing and coordinating the Annual Operating Plans; (ii) preparing budgets, project accounting, financial management and reports, and disbursement requests; (iii) preparing the program's procurement plan, the procurement of works, goods and related services, and consulting services for the program; (iv) coordinating the preparation of technical, progress and financial reports; (v) monitoring the progress of program activities and the analysis of variances of actual results against plans; (vi) hiring the external audit and ensuring that the approved recommendations are implemented; (vii) facilitation of external evaluations of the program and ensuring, in collaboration with the participating entities, that the approved recommendations are implemented; (viii) serving as a liaison for the program with the Bank; and (ix) preparing and managing the guarantee contracts under the Guarantee Fund.
- 3.3 The provisions governing program execution, participation of financial intermediaries, and eligibility of loan proceeds for guarantees will be established in the OR of the program. The OR will: (i) reflect program characteristics; and (ii) stipulate the conditions for eligibility of SME sub-projects.

- 3.4 IFI subject to oversight and monitoring by the CBB will be eligible to participate in the program in accordance with requirements stipulated in the OR. They will be responsible for: (i) evaluating SME sub-project risk and presenting requests for guarantees for loans in accordance with the Guarantee Fund terms and conditions reflected in the OR; (ii) assuming responsibility vis-à-vis CBB for the collection of IFI sub-loan proceeds guaranteed by the Guarantee Fund; and (iii) in case of a claim, assuming responsibility for pursuing the collection of the loan to the full extent of the law and reimbursing to the CBB any collected amount in proportion to the CBB's exposure in the loan.
- 3.5 The CBB will use a segregated account to identify and monitor the fund and the guarantees issued under the fund⁵⁵ in accordance with the OR. Undisbursed resources accounted for in the segregated account will necessarily be invested in accordance with the OR requirements and proceeds from these investments reinvested in the Guarantee Fund and used to provide guarantees to eligible IFI sub-loan proceeds. Should a guarantee for an IFI sub-loan proceeds be of a shorter term or cancelled within the 10 years, the funds should be reinvested into the Guarantee Fund and used to provide guarantees to eligible IFI sub-loan proceeds.
- 3.6 The IDB will have the right at all times to inspect the state of fund execution. Financial statements and the eligibility of project expenses shall be audited annually by an independent auditing firm acceptable to the Bank and hired and paid by the CBB. The firm will report on the eligibility of program expenses, verify the existence of issued guarantees by the CBB, and perform physical inspections of projects guaranteed by the Guarantee Fund with loan resources to verify implementation of investments. The program's audited financial statements will be submitted to the Bank within 120 days following the close of the EA fiscal year according to accounting standards and principles acceptable to the Bank.
- 3.7 **Special contractual conditions prior to first disbursement. The EA will provide evidence, to the Bank's satisfaction, of: (i) the formal designation of a program coordinator; (ii) the presentation of evidence that the borrower and the EA have entered into a Trust Deed, for the transfer of loan resources and execution of the program activities; and (iii) the approval and effectiveness of the OR of the program agreed upon with the Bank.**
- 3.8 A disbursement of up to US\$2.5 million will be made in advance, in order to ensure initial funding of the Guarantee Fund. Further disbursements shall be made based on a pipeline of approved requests for guarantees by the Guarantee Fund for IFI sub-loans to eligible projects of eligible SME in accordance with the requirements and procedures stipulated in the OR. For the purpose of the justification of expenditures for the second and subsequent advances of funds, the object of the expenditure will be the guarantee issued by the CBB, in accordance with the eligibility criteria provided for in the OR.

⁵⁵ It is expected that the fund will have a life of at least 15 years.

- 3.9 Pursuant to Document AB-2990, the disbursement by the Bank of the resources of OC and the China Fund for Co-financing for LAC will be subject to the following maximum limits: (i) up to 15% during the first 12 months; (ii) up to 30% during the first 24 months; and (iii) up to 50% during the first 36 months. All these periods will be counted from the time the loan operation is approved by the Board of Executive Directors. These limitations may be rendered inapplicable to the extent that the requirements set forth in the Bank's policy regarding said limitations have been fulfilled, provided that the Borrower has been notified of the same in writing. Project resources are to be fully disbursed within 60 months from the effective date of the loan agreement.

B. Summary of Arrangements for Monitoring Results

- 3.10 **Reports.** The program will be monitored through semiannual reports prepared by the EA and presented to the Bank within 60 days after the close of each 6 month period, measuring progress on the results indicators (Annex II), and on the fulfillment of the eligibility criteria at project and program levels.
- 3.11 **Evaluation.** The borrower, through the EA and the Bank, will conduct a midterm evaluation within 30 months from the date of the first disbursement or once 50% of the loan has been committed, whichever occurs first. The evaluation will assess progress in accomplishing program objectives and outcomes based on the Results Framework in order to identify any corrective action required. The borrower will provide the necessary information for the Bank to conduct a Project Completion Report (PCR), to be prepared 9 months since reaching 95% of disbursements. Periodical monitoring meetings are also scheduled. The [Monitoring and Evaluation Plan](#) also contemplates an ex-post economic analysis for the program evaluation. It will use basic descriptive and inferential statistics to illustrate the results of the program. An ex-post cost-benefit analysis will be utilized to measure changes in TFP derived from the program.
- 3.12 **Information.** The CBB will compile and maintain all information, indicators and parameters, including all documentation required to prepare the PCR and any ex-post assessment the Bank or the China Trust Fund may wish to conduct.

Development Effectiveness Matrix				
Summary				
I. Strategic Alignment				
1. IDB Strategic Development Objectives		Aligned		
Lending Program	Lending to small and vulnerable countries			
Regional Development Goals	Percent of firms using Banks to finance investments			
Bank Output Contribution (as defined in Results Framework of IDB-9)	Micro, small and medium productive enterprises financed			
2. Country Strategy Development Objectives		Aligned		
Country Strategy Results Matrix				
Country Program Results Matrix	GN-2756-2	The intervention is included in the 2014 Operational Program.		
Relevance of this project to country development challenges (If not aligned to country strategy or country program)				
II. Development Outcomes - Evaluability		Evaluable	Weight	Maximum Score
		8.2		10
3. Evidence-based Assessment & Solution		8.0	33.33%	10
3.1 Program Diagnosis		3.0		
3.2 Proposed Interventions or Solutions		2.4		
3.3 Results Matrix Quality		2.6		
4. Ex ante Economic Analysis		10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis		4.0		
4.2 Identified and Quantified Benefits		1.5		
4.3 Identified and Quantified Costs		1.5		
4.4 Reasonable Assumptions		1.5		
4.5 Sensitivity Analysis		1.5		
5. Monitoring and Evaluation		6.6	33.33%	10
5.1 Monitoring Mechanisms		2.5		
5.2 Evaluation Plan		4.1		
III. Risks & Mitigation Monitoring Matrix				
Overall risks rate = magnitude of risks*likelihood		Medium		
Identified risks have been rated for magnitude and likelihood		Yes		
Mitigation measures have been identified for major risks		Yes		
Mitigation measures have indicators for tracking their implementation				
Environmental & social risk classification		B.13		
IV. IDB's Role - Additionality				
The project relies on the use of country systems				
Fiduciary (VPC/PDP Criteria)	Yes	Financial Management: i) Accounting and reporting and ii) Internal audit		
Non-Fiduciary				
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:				
Gender Equality				
Labor				
Environment				
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				
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan				

BA-L1034 is a flexible financing facility aimed at increasing productivity of Small and Medium Enterprises (SMEs) in Barbados, by facilitating access to medium- and long-term credit for productive investment projects through the provision of partial credit guarantees to Intermediary Financial Institutions (IFIs). SMEs will be able to use these guarantees instead of the high collaterals required by the commercial banks and that are currently preventing them from satisfying their financing needs. The program will have a single component of US\$35 million to provide the financing to support the establishment and capitalization of a partial credit Guarantee Fund, to be managed by the Central Bank of Barbados.

The project is relevant and it is justified as the credit constraints imposed by high collateral requirements are structural in the country (although the 2008 crisis further increased these constraints) and may not be necessarily imposed only to highly-risk borrowers. The key to minimize the chances of providing guarantees to potentially substandard borrowers is appropriate screening and the project has taken this into consideration.

The ex-ante economic analysis is sound and shows that, in most of the simulated scenarios, the intervention has positive net benefits. It is important to emphasize however that the assumptions rest heavily in the positive productivity gains on the beneficiaries after the intervention (vis à vis the evolution of the non-beneficiaries). In this sense, the screening to select beneficiaries that will end up devoting the borrowed funds to finance "productive" investments is fundamental.

Likewise, the ex-post economic analysis (chosen to do the evaluation of the project), will rest on the observed evolution of the beneficiaries vis à vis the evolution of the non-beneficiaries. The setup of the counterfactual scenario and the means in which this will be developed, however, can be further improved.

RESULTS MATRIX

Program Objective:	The objective of the proposed project is to contribute to increased productivity of Small and Medium Enterprises (SME) by facilitating access to medium- and long-term credit for investment projects. In particular, the program will assist SME in accessing credit, through the provision of partial credit guarantees to Intermediary Financial Institutions (IFI), for medium and long term capital investments that allow SME to modernize and remodel their businesses.
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Single Component	Measurement Unit	Base Year	Year 1	Year 2	Year 3	Year 4	Year 5	Target	Notes
Products:									
Guaranteed loans for SME by the new guarantee scheme.	Number	0	32	32	41	49	48	202	The indicator measures the expected number of loans that will be issued under the guarantee scheme. The estimate is the result of considering the expected average loan amount and the expected disbursement amount for the length of the program. Source: Central Bank of Barbados.
Cost for products	Amount in US\$ millions	-	US\$5.25	US\$5.25	US\$7.0	US\$8.75	US\$8.75	US\$35	This is the yearly cost for the products of the program.

Results Indicators	Measurement Unit	Base line	Target ¹	Notes
New investments for SME supported by the program.	Amount in US\$ millions	0	US\$54.6	The indicator measures the amount in US\$ of new investments for SMEs supported by the program vis a vis the variation of the indicator of the non-beneficiary firms Note: An effort will be undertaken to monitor the women participation for firm's ownership. Source: ex post impact assessment, as described in the Monitoring and Evaluation Plan.

¹ For year 5, at the end of the execution period.

Results Indicators	Measurement Unit	Base line	Target ¹	Notes
Difference between the percentage increase in sales per worker observed on the beneficiary firms over the percentage increase in sales per worker observed in comparable non-beneficiary firms.	%	0	4%-6.9%	<p>The indicator is equal to the average real sales per worker for the beneficiary firms compared to the same indicator for a comparable non-beneficiary firm, minus 1, multiplied by 100.</p> <p>Actual sales per worker of beneficiary firms are expected to increase relative to comparable non-beneficiary companies by the end of year 5.</p> <p>Source: ex post impact assessment, as described in the Monitoring and Evaluation Plan.</p>
Guaranteed loan tenor length.	Years	NA	4	<p>The indicator measures the tenor length for the new loans guaranteed on the final year of the program compared to the baseline tenor length for the new loans at the beginning of the program. ²</p> <p>Source: ex post impact assessment, as described in the Monitoring and Evaluation Plan.</p>

Impact Indicators	Measurement Unit	Base line	Target ³	Notes
Inaccessibility to Finance as an obstacle for firms according to the Enterprise Survey (IFC/WB).	%	26.6%	25%	<p>Access to finance is one of the most problematic factors for doing business. The most recent report by the Enterprise Survey for Barbados (2010) mentions access to finances with 26.6% responses from the survey as the top constraint. The indicator will measure the improvement of the perception of business owners for access to finance.</p> <p>Source: Enterprise Survey for Barbados, IFC/WB. Data verified at the end of the implementation period (see monitoring and evaluation plan).</p>

² This indicator was added to measure the length effect on beneficiary firms. Given the lack of appropriate information, we are uncertain that a meaningful comparison with the control group is feasible.

³ For year 5, at the end of the execution period.

Impact Indicators	Measurement Unit	Base line	Target	Notes
Productive sectors financing as percentage of total credit to the economy by financial intermediaries.	%	33%	35%	<p>According to the Central Bank of Barbados in 2013, the credit to productive sectors equals 33% of the total credit to the economy by the financial intermediaries. The indicator will measure the improvement of the credit to productive sector to total credit to the economy by financial intermediaries' ratio by the final period of the program compared to the baseline ratio.</p> <p>Source: Central Bank of Barbados.</p>
Average TFP growth rate over 3 years.	%	-0.8%	0.5%	<p>The indicator is equal to the average total factor productivity growth rate over a 3 year period after the implementation of the program.</p> <p>Source: IMF 2010 Article IV. Data will be verified at the end of the implementation period (see monitoring and evaluation plan).</p>

FIDUCIARY ARRANGEMENTS

COUNTRY: Barbados
PROJECT: BA-L1034. Enhanced Access to Credit for Productivity Project
EXECUTING AGENCY: The Central Bank of Barbados
FIDUCIARY TEAM: Denise Salabie, Fiduciary Financial Management Lead Specialist
 Roy Parahoo, Fiduciary Procurement Lead Specialist

I. EXECUTIVE SUMMARY

- 1.1 The Government of Barbados in its capacity as the Borrower of the loan, will through the Ministry of Finance and Economic Affairs, supervise and oversee the execution of the Barbados SME Guarantee Fund (the Guarantee Fund). The Central Bank of Barbados (CBB), which was established in May 1972 by the Government of Barbados as a statutory corporation, will be the Executing Agency of the Guarantee Fund. The CBB is responsible for promoting monetary stability, promoting a sound financial structure, fostering development of the money and capital markets, channeling commercial bank credit into productive activities and fostering credit and exchange conditions conducive to the orderly and sustained economic development of Barbados.
- 1.2 During June 2014, an institutional capacity assessment of the CBB was performed using the ICAS methodology. Based on the results of the assessment, the CBB has a low fiduciary risk as it relates to its capacity to execute the project.
- 1.3 The CBB will utilize its fiduciary management systems for the financial management and reporting of the project. The CBB currently uses TechnologyOne solution, which is as an ERP-based integrated platform which comprises modules for procurement/purchase orders, general ledger, accounts payable, fixed assets, and property, plant and equipment. A general ledger will be created for the project within TechnologyOne and managed by the Foreign Exchange and Export Credits Department (FEECD), which is the department principally responsible for executing the project. The project will also utilize the internal control and accounting procedures of the CBB, which have been assessed as being adequate.
- 1.4 The project will be funded with IDB loan financing of US\$17.5 million and co-financed with a loan of US\$17.5 million from the China Trust Fund. The co-financing from the China Trust Fund will be managed by the IDB and as such will be guided by the same fiduciary arrangements as the IDB financing.

II. EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 The proceeds of the loan, which will exclusively be used for the execution of the Guarantee Fund, will be managed by the CCB's FEECD, which has the responsibility for managing credit and guarantee operations. This department will be responsible for the

day to day management, whilst the CBB Board, overseen by an Advisory Committee, will authorize the Fund.

- 2.2 The CBB has available the necessary administrative, fiduciary and control mechanisms to provide for and to maintain a transparent and effective administration of the Fund resources. This includes the utilization of (i) existing human resources in the FEECD and supporting departments such as the Accounts Department; (ii) mechanisms for the financial management of the Fund, such as the use of the CBB's ERP solution, TechnologyOne platform, for financial management of the project; and (iii) existing accounting and internal control procedures.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The result of the fiduciary risk assessment indicates that the CBB has in place the necessary fiduciary, administrative, financial management, and internal control capabilities which would contribute to an effective and transparent administration of the loan resources. The assessment highlighted the following risks, which could impact on the project:

Risk	Risk Rating	Mitigation Measures
Untimely monitoring and reporting on the guarantee scheme (The CBB's guarantee schemes are currently managed manually, using Microsoft Excel. As a result, the capacity to timely assess and provide for corrective actions regarding the conditions, operations and, ultimately, the demand, impact and performance of the guarantee schemes of the Loan is limited.)	Medium	Guidelines on monitoring and reporting to be included in the Operations Regulations. Implementation of a computerized loan guarantees management system may be considered as a measure to enhance the CBB's capacity to adequately account, manage, control and report on guarantees. Implementation of this mitigating action however, requires a cost-benefit analysis.
Lack of awareness of IDB disbursements and financial reporting procedures.	Medium	Create capacity within CBB through training on IDB's financial management procedures and requirements.

IV. ASPECTS TO BE CONSIDERED IN THE SPECIAL CONDITIONS OF CONTRACT

- 4.1 The fiduciary arrangements that should be considered in the Special Clauses are described below:
- a. **Dedicated personnel** within CBB should be identified to support the financial administration and reporting of the project.

b. Annual Audited Financial Statements of the Guarantee Fund:

- i. Are to be submitted to the IDB within 120 days after the close of CBBs financial year, in addition to Final Audited Financial Statements which are due for submission to the IDB within 120 days of the close (last disbursement date) of the Project.
- ii. The financial statements of the Fund should include a report on the eligibility of costs associated to the fund, verify the existence of the issued guarantees and supporting documents, and that the guaranteed sub-loans have been disbursed in accordance with the terms and conditions of the Operating Regulations for the Barbados SME Guarantee Fund.
- c. **Exchange Rate:** For purposes of justification of expenses or disbursements to the IDB (including reimbursements), if the project expenses have been incurred and/or guarantees disbursed in local currency, the equivalent amount to be reported in the project currency, shall be determined using the effective exchange rate of the payment date, as published by the CBB, without regard to the source of the financing used.
- d. **Semi Annual Progress Reports of the Project** should be submitted to the IDB within 60 days of the closing of each semester. These reports should include a status update on: (i) the Guarantee Fund, including the balance of the fund and list of guarantees issued (ideally generated from CBB's financial reporting system); and (ii) the Project financing (broken down according to source of funds).
- e. **Disbursement Restrictions:** Disbursements (IDB and China Trust Fund financing) for the first 3 years will follow the criteria established by the macro-economic safeguards of the IDB: (i) in the first 12 months, a maximum of 15% of the total amount of loan financing approved may be disbursed; (ii) in the first 24 months, a maximum of 30% of the total amount of loan financing approved may be disbursed; and (iii) in the first 36 months, a maximum of 50% of the total amount of loan financing approved may be disbursed.

V. FIDUCIARY ARRANGEMENTS FOR PROCUREMENT EXECUTION

- 5.1 As the loan proceeds will exclusively be used to fund the Guarantee Fund, there will be no procurement activity using loan resources.

VI. FINANCIAL MANAGEMENT**A. Programming and Budget**

- 6.1 The Accounts Department under the Deputy Governor (Operations) is responsible for the overall financial administration activities in the CBB including accounting, budget (execution), treasury, and asset management. The responsibility for budget preparation

lies with the Budget Committee of the CBB Board and is chaired by the Deputy Governor (Operations). The budget is prepared based on inputs from various departments, consolidated by the Accounts Department and approved by the Board. The budget is monitored using the Enterprise Resource Planning (ERP) solution, TechnologyOne, and is integrated with the accounting, financial management, treasury, asset management, procurement, and supply chain management modules.

- 6.2 CBB's TechnologyOne system will be used to manage the loan resources. Additionally, as the Government of Barbados is the Borrower of the loan, allocations for the Fund will be made in the Government's Estimates of Expenditure each year.

B. Accounting and Information Systems

- 6.3 The CBB uses the ERP solution, TechnologyOne, for accounting and financial management. As indicated previously, the system allows integration between the various fiduciary modules such as budget, accounting, treasury and procurement. Financial reporting is guided by International Financial Reporting Standards and is subject to compliance with the Central Bank of Barbados Act. It is expected that a separate sub-ledger will be created in TechnologyOne for the accounting of the Fund.
- 6.4 The detailed management of guarantee schemes is currently done by the CBB using Microsoft Excel spreadsheets. It is expected that the management and monitoring of the Fund being funded from the loan, will also be monitored with the use of spreadsheets.

C. Disbursements and Funds Flows

- 6.5 A separate bank account will be established for the disbursement and management of Fund resources. The account, which will be managed through TechnologyOne, will be used to issue guarantees, disburse claims, collect fees and other activities related to the funds in accordance with the terms and conditions specified in the Operations Regulations for the SME Guarantee Fund and CBB Operating regulations.
- 6.6 The IDB will utilize the Reimbursement of Payments (Direct Payment to Borrower) methodology for the disbursement of the loan. The first disbursement, which is intended to capitalize the Fund and facilitate commencement of operations, will be made based on the approval of the Operations Regulation for the SME Guarantee Fund and a list of pre-identified pipeline of eligible guarantees. Subsequent disbursements will be made on the basis of an actual pipeline of eligible guarantees provided by the CBB.
- 6.7 As Barbados will not have an Independent Assessment of Macroeconomic Conditions (IMAC) at the time the loan proposal for this project is distributed to the Board, disbursements for the first 3 years will follow the criteria established by the macro-economic safeguards of the IDB. See paragraph 4.1 (e) of this annex for details.

D. Internal Control and Audit

- 6.8 The CBB internal controls and procedures will be applicable for the management of the Fund. The CBB Internal Audit Department will have the right to access all relevant information related to the Fund and use of Fund resources at the IFIs.

E. External Control and Reporting

- 6.9 The CBB will be required to submit Audited Financial Statements of the Fund, as per the frequency indicated in Section 4.1(b) of this document. The audit will be done in accordance with International Auditing Standards. The Terms of Reference will be agreed on in advance, between the CBB and the IDB.
- 6.10 The Audited Financial Statements should include a report on the eligibility of costs associated to the fund, verify the existence of the issued guarantees and supporting documents, and that the guaranteed sub-loans have been disbursed in accordance with the terms and conditions of the Operating Regulations for the Barbados SME Guarantee Fund.
- 6.11 The external audit of the fund will be undertaken by an independent audit firm acceptable to the IDB. The CBB will carry out the hiring of the firm and will have the option of using: (i) their current auditors, once eligible to audit IDB funded projects; or (ii) a competitive process to select the auditors for the project. In the event that a competitive process is followed, the IDB's AF-200 Guide should be used.
- 6.12 The cost of the audit will be funded from counterpart resources.

F. Records and Files

- 6.13 The CBB will have responsibility for maintaining the files and records of the project. Records and files should be managed and updated in a timely and organized manner in accordance with accepted best practices; and kept for up to 3 years beyond the end of the project's execution period.

G. Financial Supervision Plan

- 6.14 The Financial Supervision Plan of the project is prepared based on the fiduciary risk of the project. As the CBB has been rated with a low fiduciary risk, reliance will be placed on the fiduciary review of the fund as conducted by the external auditors. Notwithstanding this, the IDB will carry out desk and in situ reviews of the project, as deemed necessary. The fiduciary supervision visits will include the verification of financial and accounting arrangements for the fund management, as well as follow-up on implementation recommendations issued by the fund's independent auditor.
- 6.15 It should be noted that IDB's interaction will be with the CBB, the fund manager, and as such the IDB will not have access to the firms that borrow through the IFIs or to the IFIs that participate in the programme.

H. Execution Mechanism

- 6.16 The proceeds of the loan, which will exclusively be used for the execution of the Fund, will be implemented by the CBB. The FEECD of the CBB will be responsible for managing the day to day aspects, whilst the CBB Board, overseen by an Advisory Committee, will authorize the Fund. The FEECD will ensure that the Fund is managed in accordance with the Operations Regulations for the Barbados SME Guarantee Fund, CBB internal procedures and the Financial Management Policy for Projects Financed by the IDB.
- 6.17 The Government of Barbados in its capacity as the Borrower of the loan, through the Ministry of Finance and Economic Affairs, will supervise and oversee the execution of the Fund. The CBB will be responsible for: conducting regular monitoring of the fund, financial management and reporting, including preparing and submitting disbursement requests and financial statements to the IDB.

ENHANCED ACCESS TO CREDIT FOR PRODUCTIVITY PROJECT

BA-L1034

CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) certifies receipt of the non-objection from Jian Gong, State Administration of Foreign Exchange (SAFE) dated August 8, 2014 for project “Enhanced Access to Credit for Productivity Project” for the amount of US\$17,500,000 chargeable against the China Co-Financing Fund for Latin America and the Caribbean (CHC).

Original Signed

10/21/2014

Sonia M. Rivera
Chief

Date

Grants and Co-Financing Management Unit
ORP/GCM

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/___

Barbados. Loan ____/CH-BA to the Government of Barbados
Enhanced Access to Credit for Productivity Project

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 contract or contracts as may be necessary with the Government of Barbados, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a enhanced access to credit for productivity project. Such financing will be for an amount of up to US\$17,500,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/___

Barbados. Loan ____/CH-BA to the Government of Barbados
Enhanced Access to Credit for Productivity Project

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, acting as Administrator of the China Cofinancing Fund for Latin America and the Caribbean, to enter into such contract or contracts as may be necessary with the Government of Barbados, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a enhanced access to credit for productivity project. Such financing will be for an amount of up to US\$17,500,000 from the resources of the China Cofinancing Fund for Latin America and the Caribbean, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.