

## TC ABSTRACT

### I. BASIC PROJECT DATA

Country:	Barbados		
TC Name:	Support the Implementation of the Fiscal Consolidation Program		
TC Number:	BA-T1021		
Team members:	Gerardo Reyes-Tagle (IFD/FMM), Project Team Leader; Sophia Whyte-Givans (FMM/CJA); Stefano Tinari (IFD/ICS); Desmond Thomas (CCB/CBA); Bernardita Sáez (LEG/SGO); Janette Archer-Headley (CCB/CBA); Michael Hennessy (CCB/CCB); Hunt Howell (Consultant); and Susana Román-Sánchez (IFD/FMM).		
Operation type	Operational support		
Operation supported by the TC:	Fiscal Consolidation Programme (BA-L1026)		
Date of TC Abstract:	March 22, 2012		
Beneficiary:	Barbados		
Executing agency:	Bank Executed		
IDB Funding Requested:	US\$575,000		
Local counterpart funding,	None		
Disbursement period:	Disbursement period	24 months	
	Execution period	18 months	
Types of consultants;	Individual		
Prepared by Unit:	IFD/FMM		
TC included in CS or CPD	Yes [ X ]	GCI-9 priority:	Yes [ X ]
	No [ ]		No [ ]

### II. OBJECTIVE AND JUSTIFICATION

- 2.1 The Government of Barbados (GoB) has requested technical assistance (TC) for the implementation of the Fiscal Consolidation Program, which aims to support the authorities' efforts to strengthen the country's fiscal policy stance over the short and medium term. The analytical work that will result from the technical assistance is seen as a key input in achieving the operation's objectives.
- 2.3 For OS-TCs: The TC will finance tax and debt policy and: tax and debt administration studies as well as institutional capacity training in critical areas that will be supported by the program<sup>1</sup>. These studies will give a better scope of the areas of intervention of the program by providing detail information of the gaps in tax expenditure, the efficiency of the tax administration system, the

<sup>1</sup> For example, technical studies to: (i) assist the GoB in the review of the efficiency of the tax system and the design of a comprehensive and meaningful tax policy, including the impact on tax burden, economic efficiency and growth, and fiscal revenue, public debt sustainability management and central treasury management; and (ii) support the establishment of a Central Revenue Authority, in which a number of revenue collection agencies will be consolidated. It will also finance training services in the areas of (i) Tax Policy Design and Modernization of the Tax and Customs Administrations; (ii) Public Debt Sustainability and Management; and (iii) Central Treasury Management System.

institutional arrangements of the debt management areas and the foundations for a medium term debt strategy. This TC is linked to the GC-I9 supporting “vulnerable and small countries”.

### III. DESCRIPTION OF ACTIVITIES AND OUTPUTS

- 3.1 The TC will finance the following main activities: (i) Strengthening of tax revenues. Technical assistance will focus on the development of the government’s first Tax Expenditure Budget (TEB). This will include the compilation of the various tax incentives as well as the associated tax expenditures; (ii) Improving the quality of expenditure. Building on the outcomes of BA-T1015, which funded the Public Expenditure Review of five sectors of the economy, technical assistance will be geared at the implementation of the main recommendations for improving the efficiency of public expenditure in critical areas of budgetary support; (iii) Strengthening public debt management. Technical assistance in this area will involve: a) the hiring of a consultant to draft the unified Public Debt Law; b) extensive training [IDB1] across the three main agencies involved in debt management, namely the MoF, the Treasury and the Central Bank to improve the credibility of the data and the coherence across the entities; c) a study on what modern debt management in Barbados should consist of in terms of the best structure, staff capacities, salary levels and career paths; and d) front, middle and back office training for staff to strengthen the country’s public debt management.
- 3.2 The foreseen products are: (i) a Tax Expenditure Budget for Tax Years 2012/13 – 2015/16; (ii) a time-bound action plan for the implementation of expenditure policies that will assist the GoB in meeting the targets of the Medium Term Fiscal Strategy, with regard to the balanced budget objective. Milestones from this plan could possibly inform a second PBL; (iii) a draft of a Unified Public Debt Law; (iv) a study that will form the basis for the restructuring and rationalization of debt management; and (v) staff trained in international best practices in debt management.

### IV. BUDGET

- 4.1 Table 1 describes an indicative budget for the TC in the amount of US\$575,000.

**Table 1. Indicative Budget**

Description and type of the procurement contract	Estimated Cost (US\$)	Source of financing	
		IDB %	Local %
<b><u>Component I: Strengthening of tax revenues</u></b>			
<b>Consulting services:</b>			
<b>Service 1:</b> Technical studies, both by local and international experts to assist the GoB in the review of the efficiency of the entire tax system and the design of a comprehensive and meaningful tax policy, including the impact on tax burden, economic efficiency and growth, and fiscal revenue.	120,000	100	0

Description and type of the procurement contract	Estimated Cost (US\$)	Source of financing	
		IDB %	Local %
<b>Service 2:</b> Technical studies supporting the establishment of a Central Revenue Authority, in which a number of revenue collection agencies will be consolidated comment above applies.	100,000	100	0
<b>Service 3:</b> Training services in the areas of i) Tax Policy Design and Modernization of the Tax and Customs Administrations; ii) Public Debt Sustainability and Management; and iii) Central Treasury Management System.	85,000	100	0
<b>Service 4:</b> Experts on Tax Policy Design and Modernization of the Tax and Customs Administrations.	90,000	100	0
<b><u>Component II: Improving the quality of expenditure</u></b> <b>Consulting services:</b> <b>Service 1:</b> Technical studies, both by local and international experts to assist the GoB in the review of the efficiency of goods and services as well as experts on strategic programming and quality of expenditure.	80,000	100	0
<b><u>Component III: Strengthening public debt management</u></b> <b>Consulting services:</b> <b>Service 1:</b> Technical studies, both by local and international experts to assist the GoB in the drafting of a legal framework that clearly defines the government's authority to borrow, to issue debt and to undertake debt transactions on the government's behalf.	40,000	100	0
<b>Service 2:</b> Technical studies, both by local and international experts to assist the GoB in establishing clear roles and responsibilities of the key institutions, the Ministry of Finance, the Treasury Department, and the Central Bank of Barbados, for public debt management.	30,000	100	0
<b>Service 3:</b> Technical studies, both by local and international experts to assist the GoB in order to help the government on drafting laws or regulations to monitor and control the growth in certain other off-balance sheet activities, in particular Public-Private Partnerships.	30,000	100	0
<b>TOTAL</b>	<b>575,000</b>	100	0

## V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 The Bank exceptionally, at the request formulated by the government, has agreed to be responsible for the contracting of consultancies (see request). Bank execution is justified in this OS due to the technical expertise of the Bank in the area covered by the programme and due to the fact that the execution by the beneficiary would entail compliance with internal requirement that would delay the execution of the OS and the programme overall. The Bank will carry out the selection and hiring of the consulting services necessary for this TC in accordance with the applicable Bank's procedures and policies set forth in document GN-2350-7.5.
- 5.2 Technical and disbursement responsibility at the Bank: Gerardo Reyes-Tagle (IFD/FMM); and Sophia Whyte-Givans (FMM/CJA).

## VI. PROJECT RISKS AND ISSUES

- 6.1 At the level of the PP the Project Team has identified the following risks: (i) at the development level, the program partially depends on the successful achievement

of the targets of the government's plan for fiscal consolidation as outlined in the Medium Term Fiscal Strategy (MTFS), 2010–2015; (ii) at the macroeconomic and fiscal sustainability level, the main risks are: a) higher fiscal deficits due to lower than projected revenue, which will cause fiscal consolidation to occur at a much slower pace than the MTFS had originally planned for; and b) low growth prospects, which will impact fiscal sustainability; (iii) at the governance and public management level, the risks are: a) national elections may jeopardize the objectives of the program if the new authorities are not in agreement with the MTFS; and b) given the ambitious scope of the program, that addresses simultaneously a wide range of legal and technical issues in several areas, a weak coordination and a weak institutional capacity from the MoF may jeopardize program success.

## **VII. ENVIRONMENTAL AND SOCIAL CLASSIFICATION**

- 7.1 All TCs must have an ESG classification. This subheading should state the ESG classification of the TC as assigned by ESG.