

Technical Cooperation (TC) Document

I. BASIC INFORMATION FOR TC


Country/Region:	BARBADOS/CCB
TC Name:	Barbados Business Facilitation
TC Number:	BA-T1050
Team Leader/Members:	Carlos Guaipatin (IFD/CTI), team leader; Mario Umaña (INT/TIN), Yohana Gonzalez (IFD/CTI); Natasha Boyce (CCB/CBA); Russel Franklyn (FMP/CBA); Mario Vinicio Rodriguez (FMP/CBA); Maria Camila Padilla (FMP/CBA); Guilherme C. Piereck (INT/TIN); Krista Lucenti (INT/TIN) and Maria del Pilar Jimenez de Arechaga (LEG/SGO)
Taxonomy:	Client Support
Date of TC Abstract authorization:	October 16, 2017
Beneficiary	Barbados
Executing Agency:	Inter-American Development Bank (IDB), through Competitiveness and Innovation Division (IFD/CTI)
Donors providing funding:	Strategic Development Program for Institutions (INS)
IDB Funding Requested:	US\$170,000
Local counterpart funding, if any:	US\$0.00
Disbursement period (which includes Execution period):	30 months
Required start date:	December 1, 2017
Types of consultants:	Firms and individual consultants
Prepared by Unit:	IFD/CTI
Unit of Disbursement Responsibility:	IFD/CTI
TC Included in Country Strategy (y/n):	Yes
TC included in CPD (y/n):	Yes
UIS Sector Priority:	Yes

II. OBJECTIVES AND JUSTIFICATION OF THE TC

- 2.1 In 2009, the Bank partnered with the Government of Barbados (GoB) with the objective to increase the competitiveness of Barbados through a series of initiatives. For this purpose, on March 21, 2010, both parties entered into loan contract No. 2278/OC-BA, for the execution of the Barbados Competitiveness Program (BCP). The instrument used was an investment loan consisting mainly of technical assistance activities, but also including an investment sub-component in the trade logistics (Electronic Single Window) area.
- 2.2 The original Program objectives were to: (i) rationalize the incentive system and regulations to ensure a coherent framework to support business development; (ii) rationalize the institutional architecture of business development services (BDS) and introduce a framework for clustering initiatives; (iii) improve logistics and trade facilitation, lowering the cost of the movement of goods and people, and enhance access to infrastructure through Private Public Partnerships (PPPs), among other modalities; and (iv) strengthen public-private dialogue (PPD) to develop and implement a medium-term competitiveness strategy.
- 2.3 During the execution, the involved agencies faced a number of challenges which led to delays in the implementation of activities related to, among others, the complexity of program design, staffing issues (specifically with hiring the required personnel as well

as capacity issues) within the Program Execution Unit (PEU) as well as lengthy government procurement processes. This, together with a shift in government priorities, lead to a restructuring of the original project, namely the partial reallocation of funds assigned to the remaining activities under Component 2 aimed at strengthening productive sectors through firm-level intervention. The resources allocated under this component amounted to little more than ten percent of the total financing amount and were reallocated to the Electronic Single Window (ESW) sub-component. Given its very delimited nature, the cancellation of the activities had only a very limited impact on the overall program objective.

- 2.4 Despite the challenges mentioned above, the Program has led to a number of important results. Among these are the finalization of the conceptual design for the Cargo Examination Facility (CEF), the development of a Computable General Equilibrium (CGE) model, the development of a National Competitiveness Strategy (NCS), the design and launch of the ESW as well as the design of the institutional structure for the Commission on Competitiveness. In addition, the Borrower has also developed a new institutional framework for public-private dialogue that has been key in building consensus and maintaining momentum around critical reforms and policy actions.
- 2.5 The overall objective of the TC is to continue the Bank's support to improve productivity and innovation of the private sector in view of the important progress made to date and help the country tackle some of the remaining challenges it is facing in the area of business facilitation. Specifically, the TC will support: (i) the promotion of platforms to foster the dialogue and collaboration between the public and the private sectors; (ii) the assessment of the use being made of and possible adjustment of the tools generated by the loan and delivery of capacity building activities to ensure their successful integration into government and business processes; and (iii) the strengthening of public agencies' capabilities to effectively and efficiently process international trade of goods and services.
- 2.6 Since efforts to increase the capabilities of the private sector must be constant and adapt to the dynamism of the global economy based on knowledge, it is important for the Bank to continue supporting the country on these issues. The numbers published in the 2017 Doing Business Report highlight the need for further consolidation in key areas such as property registration, trading across borders and enforcement of contract.

Topics	DB 2017 Rank	DB 2016 Rank 	Change in Rank
Overall	117	115	↓ 2
Starting a Business ✓	101	101	-
Dealing with Construction Permits	161	158	↓ 3
Getting Electricity	93	89	↓ 4
Registering Property	130	131	↑ 1
Getting Credit	133	127	↓ 6
Protecting Minority Investors	165	166	↑ 1
Paying Taxes	85	86	↑ 1
Trading across Borders	125	122	↓ 3
Enforcing Contracts	167	166	↓ 1
Resolving Insolvency	36	35	↓ 1

Source: <http://www.doingbusiness.org/>

- 2.7 Besides supporting the country in tackling some of the key challenges in the area of business facilitation, the activities and knowledge generated by the activities of this TC will provide a very valuable basis for a potential new loan. This is particularly critical at a time when the country is expected to be holding elections in early 2018.
- 2.8 **Strategic Alignment.** This TC is fully aligned with the objective of the Barbados Country Strategy 2015-2018 which is to help restore sustainable growth in Barbados' economy by supporting greater private sector competitiveness and enhancing efficiency in service delivery by the public sector. The document also highlights that "the Barbados Growth Diagnostic confirms that greater macroeconomic stability, competitiveness and productivity are essential to achieve higher growth" (p. 4). In addition, one of the four priority sectors is related to transportation and logistics, which includes, among others, challenges with maritime logistics and the international trade of goods and services, which would benefit from all the activities supported under Component 3, as detailed in the section below. Equally, this TC is fully aligned with the Update to the Institutional Strategy (2010-2020) which includes the following two key development challenges for the region that will directly benefit from the interventions of this TC: (i) low productivity and innovation; and (ii) limited economic integration. It is also aligned with the strategy's Institutional Capacity and Rule of Law cross-cutting topic and it is included in the Country Program Document 2017 (p.15).
- 2.9 The fund that will be financing this TC is the Strategic Development Program for Institutions (INS) whose objective is "to support the efforts of countries within Latin America and the Caribbean to enhance their institutions, as a contributing factor to a country's economic development enhance their institutions, as a contributing factor to a country's economic development." As discussed above, the objective of this TC is to strengthen public agencies' capabilities and generate favorable institutional conditions

to improve business facilitation in Barbados, therefore being fully in line with the Fund's overall objective.

III. DESCRIPTION OF ACTIVITIES

- 3.1 **Component 1: Fostering the dialogue and collaboration between the public and private sectors (US\$40,000).** Building trade capacity is not just about making sure that the necessary physical infrastructure is in place, but it is also about the institutional environment within which the private and public sectors operate, and the relationship between the two. Issues such as cumbersome regulatory arrangements, lack of access to capital, and a disjointed private sector can all drastically inhibit a country's ability to grow – and trade.
- 3.2 The previous loan BA-L1007 had a component aimed at promoting the setting up of an institutional framework conducive to implement a long-term competitiveness strategy, based on public-private dialogue (PPD). In this context, the team liaised with the Barbadian Social Partnership (BSP), consisting of government, the private sector, and labor unions, to identify areas for reforms to enhance the country's competitiveness and productivity. Among others, this resulted in the provision of support for the redesign of the Commission on Competitiveness, chaired by the Prime Minister, to serve under the umbrella of the BSP as the main articulator of PPD on the country's competitiveness and the design of the Commission's Technical Unit (CTU).
- 3.3 While these activities were concluded successfully during the lifetime of the loan, latest developments seem to indicate that the structure of the Commission will be changed leading to less empowerment of the CTU. In addition, fostering a fruitful dialogue within the BSP has been a constant challenge and, while the NCS is expected to go to Cabinet for approval in the coming months, there is still no clear national consensus on issues related to competitiveness and the way forward. This is particularly important, since this is a cross-cutting matter that affects nearly all sectors in the country.
- 3.4 In line with the context described above, this component would focus on awareness raising campaigns and national consultations to put the issue of business facilitation on the public and private agenda and identify critical areas based on the NCS where concerted action is needed. In initial conversations, the challenge of prevalent crime in the country was highlighted as one possible area of focus and more will be explored during the initial implementation phase of the TC. The details of the consultation process relating, among others, to the scope and participating actors, will be defined together with the GoB considering which will be the best approach to further promote PPD and get the necessary buy-in to make joint recommendations for institutional arrangements that will ensure its sustainability. Possibly, this would include a definition of mandates and roles so that an organized, engaged private sector can work directly with the local, state, and national governments to improve the business climate, promote transparency, and create new jobs.
- 3.5 **Component 2: Assessment of and capacity building on the use of new tools generated by the loan (US\$50,000).** As mentioned above, the operation BA-L1007 has financed the successful development of a number of tools that are crucial for fostering a favorable business climate in Barbados. The overall objective of the activities financed under this component would be to support the GoB and relevant stakeholders in integrating these new tools into their business processes and, if necessary, make respective adjustments to ensure the latter are in line with the country's needs and capabilities. This component will include capacity building

activities, but also dissemination strategies to promote these new instruments and highlight their added value.

- 3.6 Initial conversations with the Ministry of Finance and Economic Affairs, in particular its Public Investment Unit (PIU), highlighted a major interest in focusing on the CGE model. The activities under the loan were focused on enabling the Ministry of Finance, the Central Bank and other tax policy analysts to assess the direct and indirect impact of alternative tax regimes on economic activity and government revenues. In the process, the Barbados Statistical Service (BSS) and other agencies received support to update the country's Input-Output (I-O) matrix to be sufficiently robust to support the CGE model that was also developed under the loan.
- 3.7 If this service delivery tool was chosen, the TC would support the GoB's Macro-Fiscal Policy Unit in deciding on the way forward and in evaluating different options for a successful implementation of the model, based on their capacities and needs. Among others, GoB would need to define which entity is best equipped to host, maintain, and operate the CGE model. Even if the Finance Ministry benefits the most in terms of policy analysis of the general equilibrium effects of tax and subsidies distortions, the model could also be used to estimate effects from other policy interventions (e.g. trade measures), external shocks (e.g. the Brexit) or demographic trends (e.g. migration), just to mention a few. Therefore, entities like the Central Bank, a local university, or a consortium of different research-oriented bodies could host and maintain the CGE, making it available for policy analysis to the Fiscal Research Department, the Barbados Revenue Authority or any such fiscal body.
- 3.8 The CGE model could also be used to compute major tax reform options, highlighting areas where to increase and decrease taxes to generate maximum benefits for the country. If the latter was to be identified as a priority area, the TC would finance the enhancement of the model to assess tax reform alternatives, build the necessary local capacity to use it, and develop recommendations taking into account national legislation and data availability.
- 3.9 An alternative to choosing the CGE model could be the CEF that currently only exists in design. In that case, the TC would help foster dialogue between key stakeholders and provide some initial capacity building activities for participating agencies to ensure a timely and sustainable development of the physical infrastructure of the CEF and ensure that all key parties are included in the decision process.
- 3.10 **Component 3: Strengthening public sector capabilities to effectively and efficiently process international trade of goods and services(US\$80,000).** The modern era of international trade is one of increasingly complex interactions between people, firms, and organizations. Supply chains can span various countries and regions and good performance in trade requires connectivity not only in terms of roads, rail, air, and sea, but also in areas such as telecommunications and information-processing. Having inefficient or inadequate systems of transportation, logistics, and trade-related infrastructure can severely impede a country's ability to compete on a global scale. This component aims at giving continuity to the major deliverable of the previous loan, the design and launch of the ESW, and address other public sector shortcomings in the area of international trade. Overcoming existing bottlenecks is key to achieve workflow optimization and cost reduction and critical part of the country's vision to become a regional logistics hub.
- 3.11 The launch of the ESW is part of the commitments from the recent WTO agreement on Trade Facilitation and an important step to achieve a substantial reduction of time and

cost for processing international transactions in goods, while at the same time creating channels for greater transparency and increased revenue. To further support the country's effort in this area started by the last BCP loan, there is a need to have a strategic view of Trade Facilitation in Barbados and to continue the strengthening of capacities inside BRA and Customs as it relates to the implementation of the ESW. Specifically, this TC would finance: (i) a National Trade Facilitation Strategy for Barbados, including plans for ESW 2.0; (ii) additional support to BRA team and Customs linked to issues of ESW implementation, and (iii) the consolidation and implementation of a unified HS code. The training activities will be delivered by the firm AT Solutions. The latter were leading the work during the design and implementation of the ESW, and therefore the capacity building work is a natural continuation of the previous effort and provides the rationale for a direct contract under IDB procurement rules (GN-2765-1).

3.12 By implementing these activities, the TC will positively impact the category "Trading Across Borders" of the Doing Business Report, a category in which Barbados currently ranks 125th out of a total of 190 economies.

3.13 An indicative results matrix of the TC can be found in Annex II.

IV. INDICATIVE BUDGET

(in US\$)		
Activity/ Component	Description	IDB Funding
Component 1	Fostering the dialogue and collaboration between the public and private sector	40,000
Component 2	Assessment of and capacity building on the use of new tools generated by the loan	50,000
Component 3	Strengthening public agencies' capabilities to effectively and efficiently process international trade of goods and services	80,000
Total		170,000

V. EXECUTING AGENCY

5.1 The executing agency of this technical cooperation will be the Inter-American Development Bank through the Competitiveness and Innovation Division (IFD/CTI) with cross-support from the Trade and Investment Division of the Integration and Trade Sector (INT/TIN). The counterpart in GoB will be the Ministry of Finance and Economic Affairs. This arrangement will ensure continuity with the previous project (BA-L1007) since the team members on the IDB side will be the same and it aims at completing the tasks at hand in a cost-efficient manner and ensuring quality of the outputs.

5.2 In line with the updated guidelines GN-2470-2, this arrangement will also facilitate the transfer of technical knowledge and qualified experience of the Bank's project team with the purpose of complementing and strengthening technical capacities in Barbados. As mentioned above, the implementation of the previous loan was severely hampered by the lack of local capacity and cumbersome government procurement processes. It is important to highlight that the idea is not to circumvent the existing country system, but to work with the counterpart to build capacities and transfer best-practices in areas such as project management and procurement, and, where possible, jointly identify areas for improvement. The TC activities will be integrated with the Bank's lending

program, aligned with country and regional strategies, and generate an important space for dialogue and collaboration in light of a possible new loan.

- 5.3 The goods, works and consulting services will be acquired following the policies of the Bank. The activities to be carried out under this operation have been included in the Procurement Plan (Annex II) and will be executed in accordance with established procurement methods, namely: (a) Recruitment of individual consultants, as established in AM-650; (b) Contracting of consulting firms for services of an intellectual nature according to GN-2765-1 and its associated operational guides (OP-1155-4); and (c) Procurement of logistics services and purchase of goods in accordance with GN-2303-20.
- 5.4 This TC was discussed with the GoB at the Portfolio review exercise in November 2016 and all parties agreed to have this collaboration. Subsequently, on March 21, 2017, the GoB sent a formal communication requesting this TC and explicitly asking for the Bank to be the executing agency. The latter highlighted the importance of continuity after the previous project, thereby building on the knowledge of the project team and lessons learned to be directly reflected in the design and execution of this TC. Additional conversations were held with the PIU, as well as the Permanent Secretary and other members of the Economic Affairs Division of the Ministry of Finance and Economic Affairs on August 30, 2017 to further define areas of particular interest.

VI. MAJOR ISSUES

- 6.1 There is a risk of limited private sector interest in this type of initiative. This risk will be mitigated by reaching out to private sector representatives and highlighting that their inputs are not only key to the demand-driven design of the operation, but that this is also a valuable opportunity for the private sector to highlight its demands and needs to the public sector. In this context, collaboration will be sought using the existing structures of the BDS and having the IDB participate in the process as an “honest broker” should help facilitate the dialogue and mediate between both sides, but also between the differing public sector interests.

VII. EXCEPTIONS TO BANK POLICY

- 7.1 There are not exceptions to Bank policies in order to execute this TC.

VIII. ENVIRONMENTAL AND SOCIAL STRATEGY

- 8.1 Given the nature of the program, there are no associated environmental or social risks. Based on the Environment and Safeguards Compliance Policy (OP-703) this operation is classified as “C.” (See [Safeguards Policy Filter Report](#) and the [Screening Form](#)).

Required Annexes:

- Annex I - [Request from the client.](#)
- Annex II – [Results Matrix](#)
- Annex III - [Terms of Reference.](#)
- Annex IV - [Procurement Plan.](#)

BARBADOS BUSINESS FACILITATION

BA-T1050

CERTIFICATION

I hereby certify that this operation was approved for financing under the **Ordinary Capital Strategic Development Program for Institutions (INS)** through a communication dated October 24, 2017 and signed by Kai Hertz (ORP/GCM). Also, I certify that resources from said fund are available for up to **US\$170,000** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project Until December 13, 2017. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, represent a risk that will not be absorbed by the Fund.

CERTIFIED BY:

Original Signed

11/15/2017

Sonia M. Rivera

Date

Chief

Grants and Co-Financing Management Unit

ORP/GCM

APPROVED BY:

Original Signed

11/20/2017

Carlos Gonzalo Rivas

Date

Jefe de División

División de Competitividad e Innovación

IFD/CTI