



Enhanced Access to Credit for Productivity Project

(BA-L1034) / 3389/OC-BA;3390/CH-BA

Project Completion Report (PCR)

Original Project Team: *María Netto (IFD/CMF), Team Leader; Daniel Fonseca (IFD/CMF), Alternative Team Leader; Eduardo Ponce, Gloria Lugo, Alejandro Tamola, Stephanie Suber (IFD/CMF); Anganu Jaiwattie (CMF/CJA); Leanne Cumberbatch (CCB/CBA); Adela Moreda Mora (INE/RND); Claudia Stevenson (IFD/CTI); Denise Salabie (FMP/CBA); Roy Parahoo (FMP/CBA) and Guillermo Eschoyez (LEG/SGO).*

PCR Team: *Eduardo Sierra (IFD/CMF), Team Leader; Sebastián Vargas, Isabelle Braly-Cartillier, Javier Gaviláñez, Carmen Fernandez Diez, Claudia Márquez, Cynthia Martínez, Isabella España (IFD/CMF); Jacqueline Bueso-Merriam (SPD/SDV), Guillermo Eschoyez (LEG/SGO); Naveen Jainauth-Umrao (VPC/FMP) and María Cabrera (consultant).*

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1. [Development Effectiveness Matrix \(DEM\) Summary](#)
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Acronyms and Abbreviations

CBA	Cost Benefit Analysis
CBB	Central Bank of Barbados
EA	Executing Agency
ECGS	Enhanced Credit Guarantee Scheme
FEED	Foreign Exchange and Export Credits Department
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IFI	Intermediary Financial Institution
LAC	Latin America and the Caribbean
LP	Loan Proposal
MoEBDoB	Ministry of Energy and Business Development of Barbados
MSME	Micro, Small and Medium Sized Enterprise
NPL	Non-performing Loans
NPV	Net Present Value
OR	Operating Regulations
OVE	Office of Evaluation and Oversight
SALISES	Sir Arthur Lewis Institute of Social and Economic Studies
SME	Small and Medium Sized Enterprises
TFP	Total Factor Productivity
VAR	Vector Autoregression Model

BASIC PROJECT INFORMATION

BA-L1034 Enhanced Access to Credit for Productivity Project

Country Beneficiary Barbados	Loan Instrument Investment Loan	Borrower BA-BA - BARBADOS	Loan(s) 3389/OC-BA, 3390/CH-BA	Sector Financial Markets	Sub-Sector Capital Market Development
Date of Board Approval Dec 15, 2014	Date of Eligibility for First Disbursement Dec 08, 2015	Date of Closure (CO) Feb 24, 2021	Loan Amount - Original 35,000,000.00	Loan Amount - Current 35,000,000.00	Pari Passu
Total Project Cost 35,000,000.00	Months In Execution from Approval 74	Months In Execution from First Disbursement 62	Original Date of Final Disbursement Jun 19, 2020	Actual Date of Final Disbursement Jun 19, 2021	Cumulative Extension(Months)
Total Amount Disbursed 35,000,000.00	Total Percentage of Disbursement 100%				

Development Effectiveness Classification: Partly Successful

^ Ratings of project Performance in PMRs



Has This Project Received Funds from
another Project? ☐ Yes ☒ No

Has This Project Sent Funds to Another
Project? ☐ Yes ☒ No

Development Effectiveness Classification

No	PMR Date	PMR Stage	Classification	Disbursement Percentage (As of Dec 31)
1	Apr 19, 2016	Second period Jan-Dec 2015	Satisfactory	7%
2	Apr 18, 2017	Second period Jan-Dec 2016	Satisfactory	25%
3	Apr 18, 2018	Second period Jan-Dec 2017	Satisfactory	32%
4	Apr 09, 2019	Second period Jan-Dec 2018	Satisfactory	56%
5	Apr 07, 2020	Second period Jan-Dec 2019	Satisfactory	79%
6	May 18, 2021	Second period Jan-Dec 2020	Satisfactory	100%

^ Bank Staff



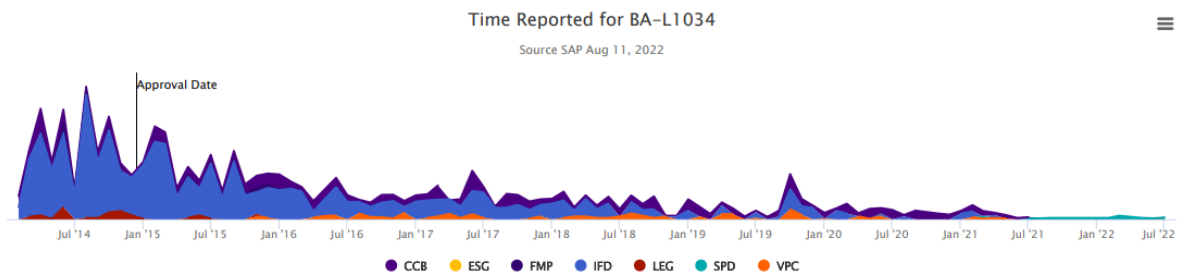
Positions	At PCR Feb 24, 2021	At Approval Dec 15, 2014
Vice-President VPS	Lopez, Benigno	Levy,Santiago
Vice-President VPC	Martinez, Richard	Rosa,Alexandre Meira
Country Manager	Turner-Jones,Therese (CCB/CCB)	Johnson,Gerard S. (CCB/CCB)
Sector Manager	Schwartz Rosenthal,Moises (IFD/IFD)	Rodriguez-Ortiz,Ana (IFD/IFD)
Division Chief	Ketterer,Juan Antonio (IFD/CMF)	Ketterer,Juan Antonio (IFD/CMF)
Country Rep	De la Hoz Vinas,Juan Carlos (CCB/CBA)	Branski,Joel (CCB/CBA)
Project Team Leader	Sierra Gonzalez,Eduardo (IFD/CMF)	Netto de A. C. Schneider,Maria E. (IFD/CMF)
PCR Team Leader	Sierra Gonzalez, Eduardo (IFD/CM)	Sierra Gonzalez, Eduardo (IFD/CMF)

^ Staff Time and Cost



Stage Project Cycle	# of Staff Weeks	USD (including Travel and Consultant Costs)
Preparation	34.6	232,406.77
Supervision	106.8	578,597.68
Total	141.4	811,004.45

^ Time



I. INTRODUCTION

- 1.1 Following the Inter-American Development Bank (IDB) overreaching goal to improve lives by enhancing regional economic growth, in 2014 the operation “Enhanced Access to Credit for Productivity Project” (BA-L1034) (“project”) was approved as a flexible financing facility (FN-655-1) for an amount of US\$35 million.¹ The objective of the operation was to contribute to increased productivity of Small and Medium Enterprises (SMEs) by facilitating access to medium- and long-term credit for productive investment projects through the provision of partial credit guarantees to Intermediary Financial Institutions (IFI). Under this scheme, SMEs were expected 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.
- 1.2 As it is detailed in sections below, the economy of Barbados faced a challenging macroeconomic scenario, that has been worsened by the pandemic. Productivity levels – and consequently GDP growth – have been gradually falling over the last years while economic structural challenges in the country have exacerbated with the pandemic. On a positive note, some of the recipes for boosting Barbadian economy that were conceived and implemented before COVID-19 – such as partial credit guarantees in BA-L1034 – have become even more relevant now. On a negative note, for evaluation purposes of this project, this tremendous crisis has affected the comparability of the achieved results against the original baseline, since most of the indicators decreased in 2020-2021, and thus any recent improvement needs to be also compared against lower levels seen during the worst of the crisis.
- 1.3 SMEs comprise over 95% of businesses, 60% of jobs, and about 25% of GDP in the region², yet they also presented many shortcomings when it comes to firm productivity and performance. Recent results pointed out access and financing costs among the main constrains. And the reason behind this low access to credit was that financial institutions required excessive collateral requirements. Without proper access to credit, SMEs could not have the resources to invest in becoming more innovative and efficient, halting their potential productivity boost, and therefore limiting their positive impact on the country’s economic growth. This is where partial credit guarantees come to play a key role in covering the increase in collateral requirements. A micro intervention with potential huge impact at the macro level.
- 1.4 Synergies created by the project’s objective and the government’s efforts to further develop the SME segment through the enactment of the Small Business Development Act to the Barbados Growth and Development Strategy Document for 2013-2020 were at the core of program success.
- 1.5 With the Government of Barbados as the borrower, the Central Bank of Barbados (CBB) acted as Executing Agency (EA) of the project through its single component of US\$35 million for the financing to support the establishment and capitalization of the partial credit Guarantee Fund, managed by the CBB. The Guarantee Fund was set to be overseen by an Advisory Committee and managed by the Foreign Exchange and Export Credits Department (FEECD)³ of the CBB. IFI subject to oversight and monitoring by the CBB would be eligible to participate⁴ in the project in accordance with requirements stipulated in the Operating Regulations (OR). Among FEECD responsibilities were the following: (i) preparing, implementing and coordinating the Annual Operating Plans; (ii) preparing budgets, project accounting, financial management and reports, and disbursement requests; (iii) preparing the project’s procurement plan, the procurement of works, goods and related services, and consulting services for the project; (iv) coordinating the preparation of technical, progress and financial reports;

¹ This operation was co-financed by the China Co-Financing Fund for Latin America and the Caribbean (CHC) for US\$17.5 million. The other US\$17.5 million was sourced from IDB’s Ordinary Capital.

² Herrera, D. (2020). [MSME Financing Instruments in Latin America and the Caribbean During COVID-19](#). Discussion paper No. IDB-DP-771.

³ See numeral 3.2 of the [Enhanced Access to Credit for Productivity Project \(BA-L1034\). Loan Proposal](#) for the full list of FEECD responsibilities.

⁴ See numeral 3.4 of the [Enhanced Access to Credit for Productivity Project \(BA-L1034\). Loan Proposal](#) for the list of IFI responsibilities.

(v) monitoring the progress of project 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 project and ensuring, in collaboration with the participating entities, that the approved recommendations are implemented; (viii) serving as a liaison for the project with the Bank; and (ix) preparing and managing the guarantee contracts under the Guarantee Fund. Eligible IFIs participating in the project were 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.

- 1.6 The project was approved by the Board of Directors in December 2014. Loan contract reached eligibility in December 2015, where also the first disbursement took place. Execution period was initially set for five years but, due to COVID-19 imposed restrictions for economic activity, the last disbursement took place in June 2021, although by July 2020 95% of loan resources were already disbursed.
- 1.7 This report summarizes to what extent this project has achieved its expected development objectives. But even more importantly, how the implementation of partial credit guarantees that improve access to credit for SMEs is a key and today-more-than-ever measure to implement – given how much the pandemic has affected access to credit in the region.⁵ This PCR finds that the project has been relevant, effective, efficient and has solid grounds for sustainability. The PCR classification for this project is partly successful.

II. Core criteria. Project performance

II.1 Relevance

- 2.1 The project aimed at contributing to increase productivity of SMEs by facilitating access to medium- and long-term credit for investment projects, since:
- 2.2 The costs of finance and access to financial services in Barbados were (and still are) found among the most significant constraints that the firms face in terms of productivity and performance (IDB, 2020, see Figure A1 in Annexes).
- 2.3 SMEs constitute over 95% of firms in the Caribbean subregion and generate about 40% of the Caribbean GDP.⁶ SME play a crucial role for economic growth in Barbados given their productive diversification, competitiveness and the generation of jobs and income. The analysis of available data show that SMEs 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.
- 2.4 Given the above, the project was designed to 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.

a. Alignment with country development needs

- 2.5 At inception, the project was aligned with the Barbados Small Business Development Act of 2002, which provided a framework of activities aimed at supporting micro and small enterprises through

⁵ Arraiz, Chiapello & Yañez-Pagans (2022). [How Has Access to Credit Been Affected by the Pandemic in Latin America and the Caribbean?](#) Development Impact blog entry.

⁶ Mclean, S. & Charles, D. (2020). [A preliminary review of policy responses to enhance SME access to trade financing in the Caribbean](#). Studies and Perspectives Series-ECLAC Subregional Headquarters for the Caribbean, No. 88.

incentives (fiscal and others) and technical support.⁷ It was also aligned with Barbados Growth and Development Strategy 2013-2020, which included section 4.3.5, dedicated to Micro, Small and Medium Sized Enterprise (MSME) Development, highlighting the government's commitment to provide for greater access to capital for MSME and to further promote their growth, productivity and revenue generation.⁸

- 2.6 During implementation, it was aligned with Barbados Sustainable Recovery Plan 2018, in particular with the thematic area of growth, which included objective 9: "Improve business facilitation and the key objective of enabling a thriving and sustainable export sector namely the Manufacturing, Agriculture, and MSMEs".⁹
- 2.7 At closure, it was still aligned with Barbados Sustainable Recovery Plan 2018 and with a proposed initiative (still in progress) of a collateral registry, to make it easier for SMEs to access loans.¹⁰

b. Strategic Alignment

- 2.8 The project was designed following the IDB Institutional Strategy 2010-2020, and in line with the findings of the Country Program Evaluation Barbados 2010-2013 (RE-406-1).¹¹ Specific alignment to key frameworks in the Bank's work with Barbados is detailed in this section.
- 2.9 **Alignment to the Country Strategy at approval:** The program was approved in December 2014. That year was a transition year between two Country Strategies: 2009-2013 (GN-2539) and 2015-2018 (GN-2812). At the time of approval, the project was not aligned directly with any of the explicitly mentioned objectives of the IDB's Country Strategy (CS) with Barbados 2009-2013, however, as noted in the Loan Proposal, the program was aligned with the Government's "Barbados Growth and Development Strategy Document for 2013-2020" which 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 document 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 financial institutions play in promoting investments. Furthermore, the IDB's Country Strategy (CS) with Barbados 2015-2018 noted (footnote 7 of CS document): "Although a new Country Strategy was not approved during the transition period in 2014, the project approved that year was aligned with this strategy." In effect, this CS aimed at addressing binding constraints to growth by improving private sector competitiveness and the efficiency of public services in the priority areas¹² that have been supported through the Guarantee Fund. The project was designed also in consistency with the findings of the Country Program Evaluation: Barbados 2010-2013 (RE-460-1), which encouraged initiatives to strengthen the relevance and development effectiveness of the Bank's project in Barbados through greater engagement with the private sector. While the promotion of private sector investments and SME was not directly referred to in the strategy with Barbados at the date of approval, the project did support private sector investments in several sectors identified by the IDB's CS with Barbados 2009-2013, such as renewable energy and sustainable practices. The project aimed to contribute to the lending project priorities of the GCI-9 (AB-2764) in the priority area of supporting development in small and vulnerable countries (such as Barbados). Also, it was to 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. Finally, the project was consistent 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. **Worth**

⁷ IDB (2014). [Enhanced Access to Credit for Productivity Project \(BA-L1034\). Loan Proposal](#).

⁸ Idem.

⁹ Government of Barbados (2018). [Barbados Sustainable Recovery Plan 2018](#).

¹⁰ MoEBDoB (2022). [Collateral registry to make it easier for small businesses to get loans](#). News entry of the MoEBDoB site.

¹¹ Developed by IDB's Office of Evaluation and Oversight (OVE).

¹² Such as tourism; transportation and logistics; energy; and integrated coastal zone management and climate resilience.

to mention how this BA-L1034 operation is explicitly included in the IDB Country Strategy with Barbados (2019-2023), as one of the principal outcomes of the IDB's 2015-2018 Country Strategy, when it comes to private sector competitiveness, as well as the complementary technical cooperation, Strengthening the Institutional Capacity of the Central Bank of Barbados (BA-T1032), which financed the development of an online platform to monitor the portfolio of guarantees throughout the life cycle of the operations.

- 2.10 **Alignment to the Country Strategy during execution (2014-2021):** During the implementation of this project, a new IDB Group CS with Barbados (2019-2023) was developed, and the operation was fully aligned with it, particularly on its priority area of “promoting higher productivity and competitiveness to enhance the country’s growth potential” and with the CS objective of “facilitate access to finance for the private sector.” The CS acknowledges the difficulty of SMEs to access to finance as being a key constraint to growth, primarily due to collateral requirements, and how these structural challenges for private sector development have been worsened by the macroeconomic climate. In addition, the CS shows how 33% of companies report access to finance as one of the main challenges to private sector operations, which is worse in Barbados than the C6¹³ average of 27%. High collateral requirements, exacerbated by an inadequate secured transaction system and a limited number of financing instruments, are behind these figures. Financing constraints affect SMEs and women-led businesses disproportionately. Enhancing productivity is regarded as key for long-term growth, and proposed interventions center on facilitating private sector-driven investment that supports greater productivity, competitiveness, and growth in the medium and long term. **Facilitating access to finance for the private sector** is among the four lines considered to promote greater productivity and competitiveness, together with strengthening the regulatory environment and government processes to foster a more open and competitive business climate; supporting the government’s target of being carbon neutral by 2030, by promoting technological innovation and a regulatory reform; and investing in infrastructure and greater diversification.
- 2.11 **Alignment to the Country Strategy, Institutional Strategy and to IDB Vision 2025 at closure:** In addition to the alignment to the current CS, this operation is fully aligned with the Update to the Institutional Strategy (UIS) 2020-2023 (AB-3190-2), and the IDB Vision 2025 “Reinvest in the Americas: A Decade of Opportunities”. Regarding the UIS, this operation is specifically aligned to the development challenge of low productivity and innovation, and as well to previous IDB-9 strategic goal of promoting development through the private sector. Among the updated areas of emphasis, the UIS states that the IDB will continue to explore the use of credit enhancement products, new and innovative instruments, guarantees, B-bonds and blended finance, among others. The IDB’s aim is to de-risk projects and programs and address market failures to make riskier operations and lower income clients and countries, commercially viable. The **IDB Group Vision 2025**, developed in 2021 placed in a prominent position the support for SMEs, and their access to financing. Access to finance and technical assistance will be crucial for SMEs to adapt and stay competitive. IDB Invest and the IDB Lab can help businesses, especially SMEs, navigate the crisis and consolidate their contribution to the recovery.¹⁴ The IDB Group Vision 2025 also states how the **group can drive and fund the expansion of private-sector-led mechanisms to facilitate access to financing by firms, especially SMEs**. These can include partnerships with bank and non-bank financial institutions, as well as anchor companies. It is noteworthy the **prominent place that the vision gives to the use of credit-enhancers mechanisms such as the guarantees**, among other tools that facilitate the crowding-in of private capital, with the goal of de-risking projects, and addressing market failures to make riskier operations commercially viable.¹⁵

¹³ Group of Caribbean nations constituted by The Bahamas, Barbados, Guyana, Jamaica, Trinidad and Tobago and Suriname.

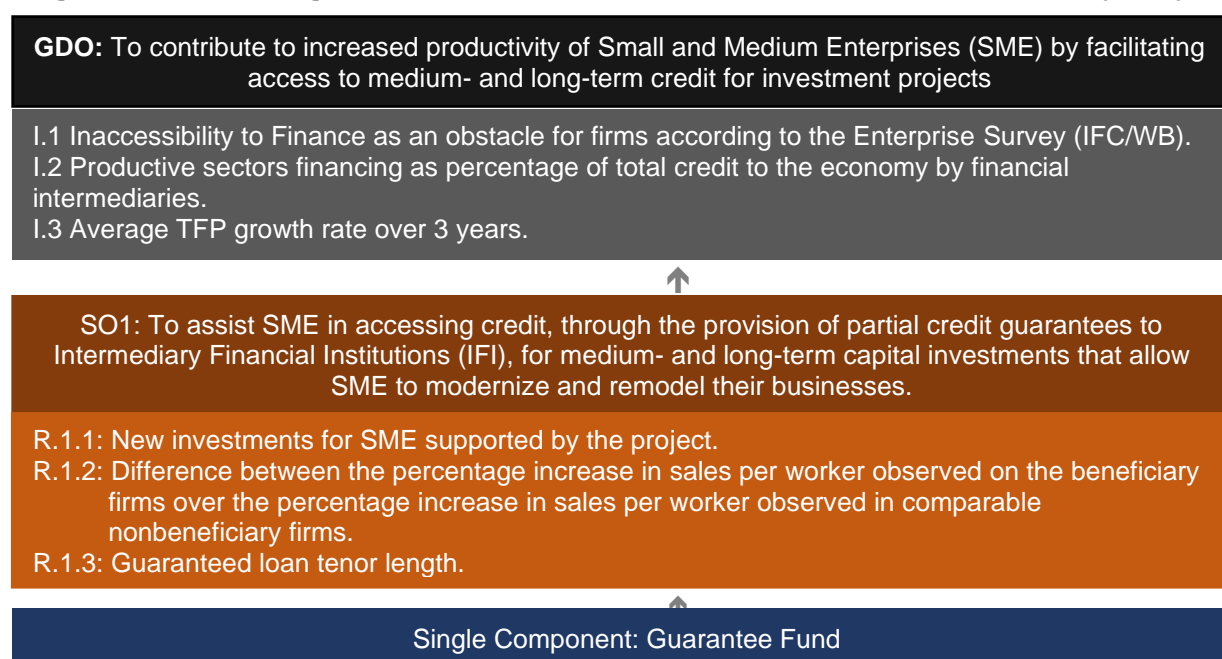
¹⁴ BID (2021). [Visión 2025. Reinvertir en las Américas: Una Década de Oportunidades](#).

¹⁵ Idem.

c. Relevance of Design

- 2.12 This operation was conceived to implement partial credit guarantees that contribute to alleviate credit constraints imposed by high collateral requirements – since they are structural in the country. Ultimately, the general objective of this project was to contribute to increased productivity of SMEs *by facilitating access to medium- and long-term credit for investment projects*. In particular, the project would assist SME in accessing credit, through the provision of partial credit guarantees to IFIs, for medium- and long-term capital investments that allow SME to modernize and remodel their businesses. Although no specific objectives were specified (this operation was approved before the current PCR guidelines regarding the definition of objectives), the operation was structured around one single component, a Guarantee Fund. For the PCR analysis, the second sentence of the general objective will be posed as a specific objective in italics above.
- 2.13 The project is relevant, and it is justified given that credit constraints, created by high collateral requirements, are structural in the country. To alleviate those constraints, partial credit guarantees are a fitting instrument, considering that the chances of providing guarantees to potentially substandard borrowers were minimized by the appropriate screening process set by the project. **At approval**, the Results Matrix included three (3) impact indicators, all linked directly to the general objective: I.1 Inaccessibility to Finance as an obstacle for firms according to the Enterprise Survey (IFC/WB), I.2 Productive sectors financing as percentage of total credit to the economy by financial intermediaries and I.3 Average Total Factor Productivity (TFP) growth rate over three years. It also included three (3) outcome indicators: R.1.1 New investments for SME supported by the program, R.1.2 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 nonbeneficiary firms and R.1.3 Guaranteed loan tenor length, which could be linked to the specific objective. Only one (1) output indicator was linked to the Single Component: KP1.2 Guaranteed loans for SME by the new guarantee scheme.
- 2.14 During implementation (**at eligibility**), it was decided to include the setting of the new guarantee scheme as an additional output indicator: KP1.1 New Guarantee scheme Funded. This addition did not conflict the vertical logic of the program but strengthened its foundation, ensuring a robust base to properly channel program resources. Figure 1 below reflects the Vertical Logic of the operation at closure.

Figure 1. Vertical Logic at closure: Enhanced Access to Credit for Productivity Project (BA-L1034)



Source: PCR team. *GDO: General objective; SO1: Specific Objective 1. I: Impact; R: Results; KP: Products

- 2.15 The rationale for the intervention emerges mainly from two considerations, which are supported by the literature. First, the financial intermediation in Barbados was at a suboptimal level, and second, there was a (widely acknowledged) relationship between credit and productivity which is also verified for the particular case of Barbados.
- 2.16 Regarding the first point –the suboptimal levels of financial intermediation–, Worrell and Lowe (2014)¹⁶ note that difficulties in accessing financing are one key factor constraining private sector growth, a point that is further reinforced by Regis (2013)¹⁷ who notes that money and capital markets have not developed the breadth, depth and sophistication that are necessary for facilitating economic growth, while at the same time market capitalization remains low and there is still significant scope for mobilizing household savings. At this point it's important to note that this situation is not the result of the recent recession¹⁸ but rather is the norm that applies to the credit situation in Barbados. In effect, this point is noted by Craigwell (2010)¹⁹ who uses a Markov-switching model to examine how bank lending behavior differs in a credit or non-credit rationing regimes for Barbados over the period 1974 to 2009. Two particular results emerge from Craigwell's study: (i) analysis of individual sectors reveals that tourism, construction, manufacturing, and agriculture are all credit-rationed under either regime²⁰ (although the severity of the restriction naturally changes in "bad" times), and (ii) banks are more cautious during periods of uncertainty, particularly during or following recessionary periods.
- 2.17 This latter point is further stressed by Bynoe (2010),²¹ who notes that as macroeconomic uncertainty in Barbados increases, the dispersion in the level of loans to total assets within the banking sector diminishes.²² The credit situation in the country has deteriorated beyond the usual level, following the 2008 international crisis, which was preceded by four periods of major economic decline.²³ Furthermore, as noted by Arraiz, Melendez, and Stucchi (2012)²⁴ SMEs are particularly vulnerable to the lack of access to credit because information and transaction costs are more acute for these firms.²⁵ They also indicate that one of the rationales for targeted assistance to SMEs is that access to credit might lead to aggregate growth is by generating long-run gains in aggregate productivity. By lifting constraints on small firms, the pace of entry of new firms, growth of young ones, and exit of unprofitable firms increases leading to a continuous process of resource allocation that generates gains in aggregate productivity via the Schumpeterian "creative destruction" process.

¹⁶ Worrell and Lowe (2014). Barbados International Competitiveness. CBB Working Paper #14/1.

¹⁷ Regis (2013). Collective investment schemes as alternatives for small investors in the ECCU. CBB Working Paper #13/11.

¹⁸ Although as it is noted later on, the recent recession certainly compounds the problem.

¹⁹ Craigwell, R. (2010). Lending behavior and credit rationing in Barbados: a regime switching model. CBB.

²⁰ In Craigwell and Kaidou-Jeffrey the regimes are rationing vs no-rationing referring to all sectors –it then makes a consideration concerning particular sectors.

²¹ Bynoe, R. 2010, The impact of macroeconomic risk on commercial bank lending behavior in Barbados, CBB.

²² A result that confirms the notion that commercial banks display herding behavior as the level of uncertainty reduces the amount of information available to individual banks

²³ The recession that ensued following the 2008 international crisis is one of the four periods of major economic decline in recent years, the others being 1981-1983, 1990-1993, and 2001

²⁴ Arraiz, I., Melendez, M, and Stucchi, R., 2012, Evidence from the Colombian National Guarantee Fund, Working Paper OVE/WP-02-12, IADB.

²⁵ Several factors come into play. Some of these are: (i) SMEs have a lower survival rate; (ii) SMEs face proportionally greater scrutiny and proportionally larger appraisal and monitoring costs; and (iii) SMEs are also proportionally more expensive to deal with in the event of a default.

- 2.18 **Credit and productivity.** The causal link running from credit conditions to productivity has been the subject of extensive theoretical and empirical research.²⁶ There are several studies for Barbados that have results aligned with the international literature. In effect, McKenzie and Craigwell (2012)²⁷ estimate an investment model with traded and non-traded sectors for Barbados. Their model accounts for 69% - 99% of the total variation observed in sector-specific investments and finds that investment in both sectors in the long-run are positively affected by private credit. Following this line, several works have found that financial development has a positive effect on growth in Barbados.²⁸ These results are complemented by others that indicate that TFP accounts (depending on the estimation and the sample) from 20% up to 68% of observed growth in Barbados.²⁹
- 2.19 To further assess the link between credit and productivity, the Connectivity, Markets and Finance Division within the Institutions for Development Department of the IDB (IFD/CMF) estimated a vector autoregression model (VAR) system of the relationship between TFP and bank credit in Barbados. Using data spanning from 1970 to 2009, a VAR of TFP and changes in bank credit indicates that the hypothesis that bank credit causes TFP in a Granger Causality Test in Barbados is confirmed, although it cannot determine that TFP causes changes in bank credit.
- 2.20 **Partial credit guarantees, access to credit, and quality of credit.** Access to finance is consistently identified as an important restriction affecting firms in Barbados –and the LAC region in general (Enterprise Survey). Credit restrictions are particularly severe for new firms –which have neither experience nor collateral³⁰ - and for SMEs (typically lacking sufficient financial information and accounting records). SMEs that have managed to remain in the market tend to have high growth potential, but this growth is usually restricted by limited access to external finance.³¹ A government backed guarantee scheme may help SMEs to overcome collateral constraints and increase the total credit flowing to productive firms.³² Credit guarantees can partially compensate for the negative effect of asymmetric information and be an effective mean of supporting the start-up, growth, and survival of new and risky enterprises.³³
- 2.21 **Effects of the guarantee on economic growth.** The effects of the guarantee on productivity and growth would be mediated by its impact on credit growth –which has already been shown to impact growth and productivity. Arraiz et al. (2014) have estimated that the impact of the increased credit access resulting from a government backed credit guarantee program were about 6% (treated vs untreated firms). This number is quite similar to the results obtained from the Enterprise Survey (a central source of information in Barbados, given the limited availability from other sources); using data from the Enterprise Survey 2010 (Barbados) showed that firms that obtained a loan expanded sales by 6.9% more relative to those that did not obtain one.

²⁶ Beck, T., Levine, R. & Loayza, N. (2000). Finance and the sources of growth, *Journal of Financial Economics*, 58, 261-300; Greenwood, J, Sanchez, J.M., and Wang, C. Quantifying the impact of financial development on economic development, *Review of Economic Dynamics*, 2013, 16, 194-215; Arizala, F, Cavallo, E, and Galindo A., *Financial development and TFP growth: cross-country and industry-level evidence*, IADB, 2009.

²⁷ McKenzie, S. and R. Craigwell (2012). Determinants of investments in the traded and non-traded sectors in Barbados, CBB.

²⁸ See: 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; 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.

²⁹ World Bank (1994). *Coping with Changes in the External Environment* (Report No 12821 LAC, Washington, D.C.); Downes, A. (2002). *Economic Growth in a small developing country: the case of Barbados*. GDN/IDB/LACEA project on Economic Growth in Latin America and the Caribbean.

³⁰ Girma, Sourafel & Hanley, Aoife. (2006). New Ventures and their Credit Terms. *Small Business Economics*. 26. 351-364. 10.1007/s11187-005-3200-4.

³¹ Baas, T. and Schrooten, M. (2006). Relationship banking and SMEs a theoretical analysis. *Small business Economics* vol 10 pp 127-137.

³² OECD (2010). *Facilitating Access To Finance: Discussion Paper on Credit Guarantee Schemes*.

³³ Ibid.

- 2.22 In sum, the operation's objective was aligned with country development needs and the IDB's CS at closure, corporate goals at time of approval, during execution, and at time of evaluation (project closure). The only weakness is a lack of direct alignment with the CS at approval. The design and vertical logic were robust, supported with evidence from the literature, which translates into a strong link between the operation's causal chain and the intended general objective. Therefore, according to the corresponding PCR Guidelines, the PCR team deems the operations relevance classified as Satisfactory.

Table 1. Results Matrix (@ approval, Startup plan and @exit)

Indicators	At approval			Startup plan			At project completion (PCR)			Comments
	Unit of measure	Baseline	EOP (P)	Unit of measure	Baseline	EOP (P)	Unit of measure	Baseline	EOP (A)	
Specific Objective 1: Facilitating access to medium- and long-term credit for investment projects										
R.1.1 New investments for SME supported by the program.	US Millions	0	54.60	US Millions	0	54.60	US Millions	0	148.5	The indicator measured the amount in US\$ of new investments for SMEs supported by the program, including resources mobilized for these investments thanks to the guarantees.
R.1.2 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	%	0	4	%	0	N/A	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. Due to unavailability of sales data of beneficiaries and non-beneficiaries in the execution database and due to the unfeasibility to perform an impact evaluation with data gathering activities due to the pandemic, the indicator was not measured. However, as is later mentioned in the attribution analysis section, the empirical literature supports a positive relation between provision of loan guarantees and firm sales. It is most likely that the program contributed positively over firm sales, especially in the context of the COVID-19 crisis where liquidity for survival was key.

R.1.3 Guaranteed loan tenor length.	Years	0	4	Years	0	4	Years	0	6	The indicator measures the average tenor length for the new loans guaranteed by the program. Since the program constituted the first guarantee fund of its kind in the country, and since the IDB was the only source of funding for this fund, the baseline was set equal to zero (0), in the absence of a comparable portfolio in the country (for more details on this see explanation on result indicator #4 in section II.2). The target was set based on expected growth in tenor at the moment of preparation.
R.1.4 Portfolio of program-guaranteed loans	US\$ millions	0	35	US\$ millions	0	35	US\$ millions	0	52.5	This operation was approved before the PCR Guidelines required all financial intermediation operations to include an indicator measuring the evolution of the relevant portfolio. Hence, this indicator was not included in the original Results Matrix. This indicator is measured at the IFI level, however, only considers loans guaranteed by the program. The reason for this is that Guarantee Fund was created and first-funded by this operation and hence (i) the baseline for this indicator is zero (0), since there was no portfolio before the operation; and (ii) all the guarantees issued by this fund are backed by the IDB resources, since there were no other funding sources during the program's lifetime. Second, this Guarantee Fund is the only one of its kind in the country which implies that we cannot use other fund-backed portfolio in the

										participating IFI as a benchmark for a baseline and target of this indicator. The planned target is equal to the totally of programs resources (US\$35 million). The achieved target is equal to the actual current value of the portfolio of backed-loans, equal to US\$52.5 millions. For further detail see explanation of this indicator in section II.2.
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II.2 Effectiveness

a. Statement of project development objectives.

- 2.23 The project's objective was established as the following: to contribute to increased productivity of SME by facilitating access to medium- and long-term credit for investment projects. In particular, the project 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.
- 2.24 The project was approved before the current guidelines for defining the objectives in terms of general development objectives and specific development objectives. However, for the PCR analysis, the stated objective can be understood as:
- *General development objective:* To increase productivity of Small and Medium Enterprises (SME) by facilitating access to medium- and long-term credit for investment projects.
 - *Specific development objective:* Facilitating access to medium- and long-term credit for investment projects.
- 2.25 The project provided 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 project had 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 was set aside to cover the administrative, monitoring and evaluation, and external audit cost of the project (see Administrative and Monitoring and Evaluation Budget Table).
- 2.26 The guarantees were issued to eligible IFI to cover individual investment loans to be undertaken by eligible SME. The guarantees were for up to US\$1 million per individual eligible SME loan and provided coverage of up to 80% of the loan amount for up to 10 years. Eligible firms were 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.
- 2.27 The expected results were an increase in real sales per worker of the beneficiary firms, loans and investments for firms and longer tenor loans. Finally, the expected product was determined as the number of guaranteed loans derived from the program, to which a product for set up of the Fund was later aggregated.

b. Results Achieved

Specific Objective 1: Facilitating access to medium- and long-term credit for investment projects.

- 2.28 **Results Indicator 1:** *New investments for SME supported by the project.* According to CBB Flows, which records every event on the Enhanced Credit Guarantee Fund, a total of 119 guarantees were approved under BA-L1034. These backed a total of BBD106 million in loans (equivalent to US\$ 52.5 million in May 2022) for a maximum amount guaranteed of BBD76.8 million (US\$38 Million). Loans were destined to finance investments valued, in total, in BBD299 million (or US\$148.5 Million). Hence, the end of program value of this indicator is US\$148.5 million, which compared to the original target value of US\$54.6 million, an considering a baseline of US\$0, means an overachievement of **272%**. This indicator was measured at the IFI level and restricted to the program-backed loans. The reason for this is the non-existence of comparable portfolios in the country given the innovative character of the operation. For further details on this, see explanation of indicator #4 below.
- 2.29 **Results Indicator 2.** 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. This indicator was intended to measure the evolution of beneficiary firms' sales in comparison to a control group. However, this data was not measured during the life of the project since the main source of information for project monitoring, CBB Flows, was set up to track financial information.³⁴ Economic variables such as sales per worker were not considered in the database due to the difficulty of measuring and tracking them. Furthermore, an impact evaluation with retrospective data gathering activities was not feasible due to the COVID-19 health emergency. Hence, the achievement of the indicator cannot be measured. Thus, the achievement percentage for this indicator is considered **0%**.

- 2.30 **Results Indicator 3. *Guaranteed loan tenor length.*** This indicator measured the average loan tenor of the guaranteed loans. The CBB Flows data recorded the tenor data for the 119 loans guaranteed by the project. The average tenor, measured at the time of approval, for these loans is 6 years. Since the project constituted the first guarantee fund of its kind in the country, and since the IDB was the only source of funding for this fund, the baseline was set equal to zero (0), in the absence of a comparable portfolio in the country (for more details on this see explanation on result indicator #4 in this). Since the baseline was 0 and the intended target was 4 years, we can conclude that the indicator reported an overachievement of **150%**. Efforts were made to measure, as reference, the average tenor at the portfolio level of the participating IFI (for non-program-backed loans). However, this information is not reported by these institutions, and the reporting practices in the country and the region do not include classifying loans by type of beneficiary enterprise. Furthermore, it is important to note that the program was approved before the current guidelines for PCR that require the measurement of this kind of indicator at the IFI level.
- 2.31 **Results Indicator 4. *Portfolio of program-guaranteed loans.*** This operation was approved before the PCR Guidelines required all financial intermediation operations to include an indicator measuring the evolution of the relevant portfolio. Hence, this indicator was not included in the Results Matrix and was not monitored during the lifetime of the program and was never included in the Project Monitoring Reports (PMRs). Nevertheless, in coordination with the Office of Strategic Planning and Development Effectiveness (SPD) of the IDB, we proceeded to analyze the portfolio indicator that best approximates the intended measure. Ideally, the relevant portfolio indicator should consist of the portfolio of all participating IFI that target SME and that are guaranteed by resources from the Guarantee Fund, regardless that they are funded by the IDB or not. However, the Guarantee Fund was created and first-funded by this operation and hence: (i) the baseline for this indicator is zero (0), since there was no portfolio before the operation; and (ii) all the guarantees issued by this fund are backed by IDB resources, since there were no other funding sources during the program's lifetime. Second, this Guarantee Fund is the only one of its kind in the country which implies that we cannot use other fund-backed portfolios in the participating IFI as a benchmark for a baseline and target of this indicator. Furthermore, a regular SME loan portfolio from a sample set of IFI does not constitute a good alternative to this indicator since, as stated before, SMEs in Barbados face higher collateral requirements when applying for loans not backed by a guarantee. For these reasons, the portfolio indicator we will use is *the portfolio of all the loans guaranteed by this program*.³⁵ Considering that the baseline for this is zero (0), the target value is equal to the total amount approved for the program, US\$35 million. The achieved target is equal to the value of this portfolio by May 2022 which is equal to BDD106 million or US\$52.5 million (See Table 2). Given these values, we report an overachievement of the target value of 150%. **A key additionality of the Guarantee Funds is their capacity to mobilize additional private resources to financing.** In this case, we observe that the IDB-supported guarantees were able to leverage US\$14.5 million, which implies a global guaranteed

³⁴ In order to facilitate project execution. This database had the IFIs as one of their target users (see further details in Section 3.2)

³⁵ The scope of the indicator is consisted with what is stated in the Annex 6 of the PCR Guidelines, page 3: "It is recognized that sometimes it may not be feasible to obtain the first-tier FI information needed to calculate the first-tier relevant growth achievement ratio (for example, for operations approved prior to the approval of these guidelines or when local market reporting practices are underdeveloped, etc.). In those cases, only the achievement ratio for the second tier FI as explained in 1.1 will be used, and the PCR document will clearly explain why it was not feasible to calculate the first-tier FIs achievement ratio".

percentage of 72% of the loan portfolio. Furthermore, since the loans did not finance the totality of the target investments, we observe that the program contributed to mobilize an additional US\$95.9 million³⁶ in resources financed by the projects. Hence, combining the leverage by the guarantees (US\$14.5 millions) and the additional co-financing (US\$95.9 millions) we can conclude that the operation is associated with a total mobilization of additional private resources of US\$110.4 million. This represents a key contribution of the program, made only possible by its central role in the creation of this financing vehicle in the country, and made even more relevant in the context of the economic crisis due to COVID-19.

Table 2. Total value of financed investments and private funds mobilization.

	BBD (millions)	US\$(millions)
Total value of financed investments	299.7	148.4
Total value of loans guaranteed	106.1	52.5
Total value leveraged by guarantees	29.3	14.5
Total value of mobilized funds (guarantee-leveraged and cofinancing)	222.9	110.4

Source: Own estimations using data from CBB Flows

- 2.32 **Macroeconomic context (2014-2021):** Amid this project's implementation, the COVID-19 pandemic disrupted the global economy, interrupting production chains, all types of business, and trade worldwide. Latin America and the Caribbean have been particularly affected by the pandemic. As stated in the IDB Macroeconomic Report 2021, although *LAC has just 8% of the global population, it accounts for 25% of global deaths from COVID-19. The 7.4% loss of GDP in 2020 was the largest in a single year since 1821.* Barbados is not exempt from this, being particularly affected by the crisis as a tourism-dependent economy. The country is highly vulnerable to external shocks and the COVID-19 pandemic has had a strong impact on the national economy, particularly in the tourism sector which accounts for 30.9% when considering indirect spillovers (indirect contribution), and 33.4% of total employment.³⁷ The economy shrank 19% in 2020³⁸ and unemployment reached 24% of the workforce, most related to the hospitality sector.³⁹
- 2.33 While the pandemic upset the macroeconomic context, particularly affecting SME firms' productivity and access to credit, the problems identified before 2014 that motivated the implementation of this project did not only remain but were exacerbated. Indeed, as stated in the IDB Macroeconomic report 2021, *several countries introduced loan guarantee programs and other types of fiscal balance sheet support measures, particularly aimed at small and medium-sized enterprises,* acknowledging the key role they will play in the recovery to support stronger growth in the aftermath of the pandemic. However,

³⁶ This is equal to the difference between total project costs and total portfolio of guaranteed loans.

³⁷ [World Tourism Organization. Economic Impact Reports](#). Research Economic Impact.

³⁸ World Bank (2022). World Development Indicators.

³⁹ CEPAL (2020). Balance Preliminar de las Economías de América Latina y el Caribe – Barbados.

the average fiscal package with fiscal measures to help households and firms was 8.5% of GDP compared to 19% of GDP in advanced economies.⁴⁰

⁴⁰ [Opportunities for Stronger and Sustainable Postpandemic Growth 2021 Latin American and Caribbean Macroeconomic Report](#)

Table 3. Results Achieved Matrix

Specific Objectives/Indicator	Unit of Measure	Baseline value	Baseline year	Targets And Actual achievement		% Achieved	Means of verification
Specific Objective #1: Facilitating access to medium- and long-term credit for investment projects							
R.1.1 New investments for SME supported by the program.	US Millions	0	2015	P	54.6	272.0	According to CBB Flows, which records every event on the Enhanced Credit Guarantee Fund, a total of 119 guarantees were approved under BA-L1034. These backed a total of BBD106 million in loans (equivalent to US\$52.5 million in May 2022) for a maximum amount guaranteed of BBD76.8 million (US\$38 Million) Loans were destined to finance investments valued, in total, in BBD299 million (or US\$148.5 Million).
				P(a)	54.6		
				A	148.5		
R.1.2 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	2015	P	4	0	Due to unavailability of sales data of beneficiaries and non-beneficiaries in the execution database and due to the unfeasibility to perform an impact evaluation with data gathering activities due to the pandemic, the indicator was not measured. However, as is later mentioned in the attribution analysis section, the empirical literature supports a positive relation between provision of loan guarantees and firm sales. It is most likely that the program contributed positively over firm sales, especially in the context of the COVID-19 crisis.
				P(a)	4		
				A	N/A		
R.1.3 Guaranteed loan tenor length.	Years	0	2015	P	4	150	Since the program constituted the first guarantee fund of its kind in the country, and since the IDB was the only source of funding for this fund, the baseline was set equal to zero (0), in the absence of a comparable portfolio in the country (for more details on this see explanation on result indicator #4 in section II.2). The target was set based on expected growth in tenor at the moment of preparation. The CBB Flows data recorded the tenor data for the 119 loans guaranteed by the program. The average tenor, measured at the time of approval, for these loans is 6 years. Since the baseline was 0 and the intended target was 4 years, we can conclude that the indicator reported an overachievement of 150%.
				P(a)	4		
				A	6		
R.1.4 Portfolio of program-guaranteed loans	US\$ millions	0	2015	P	35	150	The Guarantee Fund was created and first-funded by this operation and hence: (i) the baseline for this indicator is zero (0), since there was no portfolio before the operation; and (ii) all the guarantees issued by this fund are backed by the
				P(a)	35		
				A	52.5		

							IDB resources, since there were no other funding sources during the program's lifetime. Second, this Guarantee Fund is the only one of its kind in the country which implies that we could not use other fund-backed portfolio in the participating IFI as a benchmark for a baseline and target of this indicator. Considering that the baseline for this is zero (0), the target value is equal to the total amount approved for the program, US\$35 million. The achieved target is equal to the value of this portfolio by May 2022 which is equal to BDD106 million or US\$52.5 million (See Table 2). Given these values we report an overachievement of the target value of 150%.
Single Component Outputs							
P.1.1. New Guarantee scheme Funded	#	0	2015	P	1	100	Central Bank of Barbados
				P(a)	1		
				A	1		
P.1.2. Guaranteed loans for SME by the new guarantee scheme.	#	0	2015	P	202	71.26	Central Bank of Barbados
				P(a)	167		
				A	119		

c. Counterfactual Analysis

- 2.34 Although no counterfactual scenario was identified through an impact evaluation, given the unavailability of economic data of beneficiaries and non-beneficiaries in the execution database and the unfeasibility to perform data gathering activities due to the pandemic; in this section we discuss why the results achieved are a direct contribution of the project. The vertical logic of this operation provides insight into how the project's activities contributed to its results. The New Guarantee scheme funded (P.1.1) and Guarantee loans for SME granted by the new guarantee scheme (P.1.2), allowed for the increase in the funding of new investments for SME in Barbados (R.1.1). Moreover and as detailed below, the available literature also supports the achieved results as a contribution of the operation.
- 2.35 **Impact of MSME financing public programs.** There is evidence that public programs aimed at improving MSME access to finance have had important effects in firm performance, financing terms, and subsequent access to finance. For example, De Negri et al. (2011)⁴¹ analyze the effectiveness of public credit lines to promote the performance of Brazilian companies. The study finds effects on employment in excess of 20% for different specifications while on exports it was greater than 40%. In another case study of credit from the Banco de Desarrollo Empresarial (Bancóldex) of Colombia, Eslava, Maffioli and Meléndez (2012),⁴² analyzes the impact of loans on the performance of firms using data from several years for manufacturing establishments with 10 employees or more. The authors find significant increases in production (24%), employment (11%), investments (70%) and productivity (approximately 10%) over the four years following Bancóldex's first loan. In addition, in loans with terms of less than five years, the authors verify positive effects on the number of products exported by the firms and on the production quota. Furthermore, in an additional paper, the authors find that Bancóldex credit had a causal effect on firms access to financing in better terms, including better loan tenors.⁴³ Similarly, positive effects on investment, production and productivity were found. On the other hand, OVE (2017)⁴⁴ studies the results of support to SMEs on employment, real wages, among others, in the manufacturing sector of Brazil for a period from 2001 to 2012. The main results show that credit support has a positive impact on employment (13%) and wages (1.4%). Finally, Bueso-Merriam et al. (2016)⁴⁵ estimated the impact of the credit program for the development of production and employment in the Province of San Juan, Argentina, focusing on three variables, sales, number of employees and labor productivity. The results show an average impact of 9.7% on annual sales, 4.3% on annual employment and 6.4% on labor productivity, respectively. In addition, for companies, there is a greater average effect of 18.5% on the sales of the beneficiary firms and an average effect of 15.5% on the number of employees hired. The second evaluation carried out within the framework of the credit program for the development of production in the Province of San Juan, ASJDI (2019),⁴⁶ verified the following effects in relation to the control group: an increase in employment of 21.7% for companies; an increase of 3.3% in the probability of survival of firms; and an increase of 5.5% in the salaries of companies benefiting from credit.
- 2.36 **Impact of credit guarantee funds on firm's economic variables.** More specifically, impact evaluation literature for credit guarantee programs similar to the Enhanced Credit Guarantee Fund has

⁴¹ De Negri, et al. (2011). [The Impact of Public Credit Programs on Brazilian Firms](#). IDB Working Paper No. IDB-WP-293.

⁴² Eslava, et al (2012). [Second-tier Government Banks and Firm Performance. Micro-Evidence from Colombia](#). IDB Working Paper No. IDB-WP-294

⁴³ Eslava, et al (2012). [Second-tier Government Banks and Access to Credit: Micro-Evidence from Colombia](#). IDB Working Paper No. IDB-WP-308

⁴⁴ OVE (2017). [Assessing Firm-Support Programs in Brazil](#). Project Evaluation.

⁴⁵ Bueso-Merriam, et al. (2016) [El impacto del Programa de Crédito para el Desarrollo de la Producción y el Empleo en la Provincia de San Juan](#). IDB Discussion Paper No. IDB-DP-485.

⁴⁶ Agencia San Juan de Desarrollo de Inversiones (2019). [Programa de Crédito para el Desarrollo de la Producción en la Provincia de San Juan. Informe de Impacto Económico del Programa](#).

shown positive effects of this type of intervention on firm sales, profits, employment, among others. For example, the impact evaluation carried for Chile's Fondo de Garantía para Pequeños Empresarios (FOGAPE) found that beneficiaries from these guarantees had, on average, 6% higher sales and 4% higher profit.⁴⁷ Similarly, the impact evaluation for Colombia's Fondo Nacional de Garantías (FNG) found that the sales of beneficiaries grew 8% more on average than their counterfactual.⁴⁸ Furthermore, Giuliani et al. (2019)⁴⁹ examined the effect of guarantee programs on SMEs in Argentina, through mutual guarantee companies. They found that these guarantees have a positive impact, increasing the probability of having a loan from a financial institution by between 7.9 and 27.3 percentage points, depending on the term. They also found that medium- and long-term guarantees had an impact on a firm's survival probability and job creation. A more recent impact evaluation for credit guarantee programs for SME in Europe found that, after two years of treatment, the sales of the beneficiaries rose by 14.8 percentage points above the control group.⁵⁰

- 2.37 Hence, although an impact evaluation was not carried out for evaluating this operation, there is an ample body of evidence for similar programs in the region that support the case that the results indicators (firms investments, sales and loan tenors) positive evolution could be likely attributed to the implementation of the Enhanced Credit Guarantee Fund, including the effect on revenues, that was not possible to measure.
- 2.38 **Additional evidence for Barbados.** While there are certainly many factors affecting firms' productivity, the evidence shows how finance and access to credit have an important link to productivity in Barbados.⁵¹ Several studies have shown the importance of the private sector in investments in traded and non-traded sectors, as well as the impact of financial development on the TFP and economic growth in Barbados.⁵² In a subregion such as the Caribbean where SMEs represent over 95% of total firms, providing access to credit to enhance productivity, for economic growth and recovery, is key. In 2014, cost and access to finance were pointed out as the two main constraints for firm productivity and performance in Barbados – together with electricity and inadequately trained workforce (PROTEqIN Caribbean enterprise survey, 2014).
- 2.39 Before 2014, an analysis of SME demand for investment credit⁵³ identified that there was a potential demand for guarantees 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 available⁵⁴ (highlighted

⁴⁷ Drexler, A., K. Cowan, and A. Yáñez. (2008). "The Effect of Partial Credit Guarantees on the Credit Market for Small Businesses: The Case of FOGAPE (Small Businesses Credit Guarantee Fund of Chile)." Paper read at the conference on "Partial Credit Guarantee Schemes Experiences and Lessons." Washington DC: The World Bank.

⁴⁸ Irani Arraíz, Marcela Meléndez and Rodolfo Stucchi, Office of the Evaluation and Oversight, IDB (2012), "Partial credit guarantee and firm performance: evidence from the Colombian National Guarantee Fund".

⁴⁹ Giuliani et al., 2019. The Impact of Guarantees on SMEs Access to Credit and Employment. Mimeo.

⁵⁰ Bertoni, F., Braut, J., Colomb, M., Quas, A., Signore, S. (2019), "Econometric study on the impact of EU loan guarantee financial instruments on growth and jobs of SMEs", European Investment Fund, Working Paper 2019/54.

⁵¹ See [Financial intermediation and links between credit and productivity in Barbados](#) for detailed analysis.

⁵² 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.

⁵³ [Enhanced Access to Credit for Productivity Project \(BA-L1034\). Analysis of The Market Demand for a Government-Backed Loan Guarantee.](#)

⁵⁴ Results showed how the inability to provide collateral as the main barrier to access to credit in Barbados. While commercial banks are the most important source of credit to private sector investments in Barbados – the top three banks account for 75% of total bank assets in Barbados –, they all are subsidiaries or branches of regional or international banks, and their risk assessment practices and financial products are not scaled down to the specific conditions of local business in Barbados, particularly to SME. From information collected for this program from local commercial banks and non-bank financial institutions lending to private business (see [Enhanced Access to Credit for Productivity Project \(BA-L1034\). Analysis of The Market Demand for a Government-Backed Loan Guarantee.](#) Loans to SME represented 35% of the total corporate loan portfolio, and just 60% of the total loan requests by SME were approved.

as the main barrier to access to credit in Barbados) 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.). This project was conceived to address the limited access to credit for investments, which is particularly relevant in the case of SME.⁵⁵

- 2.40 An IDB 2020 report on financial access and inclusion in Barbados⁵⁶ showed how, before the impact of the pandemic, despite high income levels and strong performance on many socio-economic indicators, barriers to financial access remained a challenge—particularly for smaller firms—in Barbados. Furthermore, the pandemic’s impact on the economy of Barbados has increased the relevance of the access to finance of firms in the coming years given that the recovery road ahead will require investments. In other words, the pandemic has reinforced the need to explore and implement programs such as this one conceived in 2014.⁵⁷
- 2.41 Hence, given that 75% of the results were achieved ([see PCR Checklist](#)), with the attribution of these results supported by the ample evidence presented in this section, and considering that one indicator was not measured, the effectiveness rating is partly unsatisfactory. However, it should be reiterated that the result indicator related to sales was not rated due to the difficulties presented for measuring it during the execution and evaluation of the project. Furthermore, given the proven relevance of the project in the context of the COVID-19 crisis, we consider that the project’s effectiveness was commendable.

II.3 Efficiency

- 2.42 Following the Annex 6 of the PCR Guidelines, the efficiency of the operation will be assessed by analyzing the non-performing loans (NPL) performance of the relevant portfolio of the operation. An ex-post cost-benefit analysis was not feasible since there is no follow up information on beneficiaries’ revenue and other economic variables.
- 2.43 As a first step, the NPL ratio of the project was estimated. For this, the relevant portfolio considered was the portfolio of guaranteed loans by the Guarantee Fund. Since the Fund was created and funded by the project, all of the loans considered in the analysis were related to the funds of the project. Ideally,

In the interviews with IDB, 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. An additional survey carried out by the IDB also showed how 94 SME confirmed the overall perception that excessive collateral requirements are the main barrier to access to credit. 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.

⁵⁵ As stated in the loan proposal, 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). Therefore, most SME must rely on shorter term credits for their investments, limiting their possibilities for expansion and increasing their reliance on internal funds. 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.

⁵⁶ Giles Alvarez & Mooney (2020). [Financial Access and Inclusion: A Diagnostic for Barbados](#). Policy Brief No. 323

⁵⁷ This is aligned with one of the measures that many Governments have attempted to deal with crisis is the facilitation of the access to credit through guarantee programs. As [Opportunities for Stronger and Sustainable Postpandemic Growth. 2021 Latin American and Caribbean Macroeconomic Report](#) states, *their aim is to keep firms operating and their labor force intact during the health crisis. These programs may be particularly useful for exporters whose foreign client is also in financial distress and, unable to pay in advance, must wait to receive payment upon delivery of goods. This policy will help small and medium exporters to mitigate the high cost associated with relationship disruptions. It also complements Basel III regulations that establish a lower capital requirement for trade finance instruments and waives the so-called sovereign floor for confirmed letters of credit, which are particularly important for low-income countries.*

the relevant portfolio should have consisted on the MSME portfolio of the participating IFI. However, this information is not available in Barbados since it is not a practice in Barbados by IFI and the Central Bank to classify loans portfolios by type of beneficiary business. This is a common issue in Caribbean countries and has also been documented in a study by the Caribbean Development Bank.⁵⁸ Hence, the NPL of the relevant portfolio was estimated from the Fund portfolio of guaranteed loans by May 2022. It is worth noticing that the data used is at the IFI level, and relevant to the guarantee-backed loans. We use 2022 data for the Fund portfolio since most of loans are still active (given their average terms). Table 4 shows the estimation of NPL of the relevant portfolio. Thus, we estimate that the weighted (by IFI participation) average NPL of the relevant portfolio is 5.9%.

Table 4. Estimation of Guarantee Fund's NPL

IFI	Type of IFI	Loans (\$)	NPL (\$)	NPL (%)	IFI share over total portfolio
Ansa Merchant Bank	Bank	80,000	0	0%	0.08%
CIBC First Caribbean International	Bank	500,000	0	0%	0.47%
Capita Financial Services Inc	Other Financial Services	2,900,000	0	0%	2.73%
First Citizens Barbados	Bank	3,169,000	1,017,000	32.1%	2.99%
RBC Royal Bank	Bank	57,840,227	5,210,000	9.0%	54.52%
Republic Bank	Bank	33,421,763	0	0%	31.50%
Signia Globe Financial Group	Other Financial Services	8,176,045	30,000	0.4%	7.71%
Total		106,087,035	6,257,000	5.9%	100%

Note: Monetary values in Barbados Dollars. The total NPL ratio of the portfolio was calculating by averaging each IFI NPL and weighting it by its share over total portfolio. Data from CBB Flows retrieved in May 2022.

- 2.44 As a next step, a reference value for the NPL needs to be determined to compare its evolution with the achieved NPL. Ideally, the baseline NPL should be that of our relevant portfolio, i.e. the portfolio of guaranteed loans by the Guarantee Fund. However, since this Fund was first established and funded by the project, and since there is not another guarantee fund in the country, it is not posible to have a baseline value derived from the same or another fund. Hence, a benchmark portfolio for the baseline needed to be determined. Based on the composition of IFIs participating in the project, it was determined that the best benchmark would consist on the NPL of the Banks loan portfolio in the country, excluding personal and real estate loans. As was mentioned before, the financial institutions in the country (and in the Caribbean), including the Central Bank, don't clasify loans by size of business. However, given the importance of MSME in Barbado's business composition; the exclusion of non-productive related uses of credit; and the mentioned data availability in the country, we find that the selected benchkmark portfolio is adecuate. Table 5 resumes the estimation of the benchmark NPL for the baseline year and for the most recent year with available data. Data from the Central Bank data portal⁵⁹ and Financial Stability Report⁶⁰ was used to construct the benchkmark NPL. Using this information, the 2015⁶¹ NPL for the benchmark portfolio is estimated at 4.4% and the 2021 value is 6.2%. Hence, we can observe that the benchmark NPL has worsened since 2015, most likely due to the COVID-19 crisis effect on businesses balance sheets. On the other hand, The Guarantee Fund's NPL of 5.9% is slightly better that the most recent measure of the benchmark NPL. Given the fitness of the chosen benchmark portfolio, argued before, we can conclude that the Fund's NPL has, at least, behaved in line with the sector-wide trend in the country; and at best, outperformed the benchmark

⁵⁸ Caribbean Development Bank (2016). [Micro-Small-Medium Enterprise Development in the Caribbean: Towards a New Frontier](#).

⁵⁹ Central Bank of Barbados (2002): [Research & Publications. Deposit Taking Financial System](#)

⁶⁰ Central Bank of Barbados (2021). [2020 Financial Stability Report](#).

⁶¹ We use this year as baseline since it matches the original Results Matrix baseline year for indicators.

NPL. Thus, the PCR team conclude that, in accordance with the Annex 6 of the Guidelines for PCRs, the efficiency of the program can be classified as **satisfactory**.

Table 5. Estimation of NPL ratio for benchmark portfolio

Year	Total Loans and Advances excluding real estate and personal credit (thousands of \$BD)	NPL of total Loans and Advances excluding real estate and personal credit (thousands of \$BD)	NPL (%)
2021	2,765,437	171,091	6.2%
2015	4,153,719	183,739	4.4%

Source: Central Bank of Barbados (CBB) data portal and 2020 Financial Stability Report

Note: All values are from Commercial Bank data reported by CBB. Column (1) comes from CBB database. Column (2) is estimated using Central Bank's data on total loans and advances of commercial banks and the NPL ratios of the real state and personal sectors, published in the CBB's 2020 Financial Stability Report (Figure 17). Column (3) is estimated by dividing (2) by (1).

II.4 Sustainability

a. General Sustainability Aspects

2.45 For the sustainability analysis, two approaches are considered. On the one hand, sustainability on final beneficiary SME; on the other hand, sustainability and continuity of the Guarantee Fund set with project resources.

i. Sustainability for final beneficiary SME

Under the current macroeconomic context and the continued health-related crisis, it is hard to predict SME survival rate. Although nascent signs of economic recovery are showing and tourism numbers are discretely rising, the volatile short-term scenario can take a hard hit on SME's capacity to continue operations with minimal to non-existing demand depending on the sector. In that sense, SMEs results in sales were profoundly affected by the pandemic, and thus it is very difficult to assess how partial credit guarantees impacted in sales by the end of the period.

Nevertheless, using NPL as a proxy for SME repayment capacity, and thus liquidity and financial health, the low rate of guarantee claims through the final life of the project could indicate some positive expectations on the final beneficiaries' health and, therefore, sustainability over time.

ii. Sustainability of the Enhanced Credit Guarantee Fund

An unequivocal sign of the Fund's sustainability is the fact that it kept issuing guarantees after the closing of the operation. As a matter of fact, given the results of this operation, the Government of Barbados requested a follow up operation, the Global Credit Program for Safeguarding the Productive Sectors and Employment (5205/OC-BA), that was approved in December 2020 to continue with the mission of this operation and expand the original scope to include support for working capital loans for MSME facing the COVID-19 crisis. The objective of the Fund and its key role for boosting credit access has resonated with both SMEs as final beneficiaries and IFIs, which keep showing interest and submitting guarantee proposals to the Fund. Low rate of losses from claims, resulting from a solid screening process to avoid the risk of including substandard borrowers that would decrease IFI portfolio quality, prevented the overtaken of revenues allowed

positive net revenue coming from guarantee fees. Also, per design, dividends and net revenues from the proceeds of the fund will be reinvested in the Fund, ensuring its fiduciary sustainability.

Conditions for eligibility to access the Fund resources have been revised to include the current financial needs, showing the adapting capacity of the instrument to the actual credit demand -not only in volume, but in its characteristics-, while an up to date registering and reporting system provides for a fluid processing facilitating guarantee granting.

iii. Sustainability of the Guarantee Fund

Given the success reached by the Guarantee Fund and the continued demand for the alleviation of the high collateral requirement burden for borrowing SME, that has found to be highlighted by COVID-19 crisis, the Guarantee Fund has only strengthen its position and consolidated the use of this financial instrument as a key tool to advance in the government's agenda to further access to credit for productive instrument and increase productivity across the SME segment in Barbados. Furthermore, the information infrastructure set up by this operation (see section III.2 for details on CBB Flows) serves as the backbone for the management of subsequent expansion of the Guarantee Fund.

The operation's risk matrix identified an overall sustainability risk in relation to the losses from claims of non-performing loans overtaking the revenues generated by the program through the guarantee fees. In line with the ex-ante economic analysis and its risk assessment of the project, such scenario has not been materialized and, thanks to the screening process established to avoid granting guarantees to substandard credit subjects, guarantee claims have been very limited and benefits from the project have vastly surpassed losses from claims. It is important to highlight that the strength of the screening process has proven to be robust, with low number of claims even in the context of the COVID-19 crisis liquidity shock.

b. Environmental and Social Safeguards

- 2.46 This project, in accordance with the Directive B.13 of the Environment and Safeguards Compliance Policy (OP-703), did not require an ex-ante environmental impact classification. The final SME beneficiaries obtained partial credit guarantees for small credit amounts directed to the acquisition of goods and services that did not imply significant environmental and social risks and are not included in the IDB exclusion list.
- 2.47 Therefore, given these reasons, and according to the corresponding PCR Guidelines, the sustainability of the operation is classified as **satisfactory**.

III. NON-CORE CRITERIA

III.1 Bank Performance

- 4.1 Approval was granted in December 2014, while eligibility took place in December 2015 where EA commitments begun as well as IDB's monitoring duties.
- 4.2 According to the PCR Guidelines, we deem that the Bank's "Quality at entry" was satisfactory. Project design followed the extensive research analysis of access to finance constraints for SME and coincide with both the then ongoing dialogue between the Bank and the Government of Barbados, as well as with Government of Barbados demonstrated will to further develop the SME sector. According to the unequivocal observation of high collateral requirements constraining access to finance across both high and not high-risk borrowers, as well as sustained by the experiences around the LAC region, the use of partial credit guarantees was determined to serve as the most suitable financial tool bridging the declared constraints. Project design incorporated lessons learned from the aforementioned experiences, specifically: (i) the guarantee mechanism was 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); and (ii) the guarantee mechanism was set to 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). The Program's Operating Manual widely addressed eligibility criteria, operational mechanisms, and EA requirements and commitments. The co-financing provided by the China Co-Financing Fund for Latin America and the Caribbean, administered by the Bank, contributed to the expansion of the credit supply backed by the program. Regarding the original Monitoring and Evaluation Arrangements, the impact evaluation initially proposed was not carried out mainly due to the difficulties of establishing a baseline for a control group and due to the disturbances to businesses caused by COVID-19.

- 4.3 Regarding the quality of supervision, we deemed it to be satisfactory. In effect, the Bank contributed to ensure the adequate execution of the program with no significant issues arising during this period. The Bank, by providing a 12-month extension to the project, contributed to the provision of credit in the country at a time when it was much needed due to external economic shocks. Furthermore, this project was of great importance since it was the first of its kind, by the Bank, that supported the establishment of a guarantee fund for SMEs. This program served as a model for subsequent operations in Jamaica, The Bahamas, and Uruguay that sought to support MSMEs through the provision of guarantees.
- 4.4 Hence, considering the performance of these two dimensions, we conclude that the Bank performance should be classified as **satisfactory**.

III.2 Borrower Performance

- 4.5 The Government of Barbados and CBB have succeeded in setting the Enhanced Credit Guarantee Fund and its supervision and monitoring instruments, proof of which is the disbursing capacity of the Fund. Furthermore, it is noteworthy the low rate of claims for guarantees resulting from a solid screening process to avoid the risk of including substandard borrowers that would decrease the IFI portfolio quality increasing non-performing loans (NPL) ratios.
- 4.6 One of the main cornerstones was the set-up of the online reporting system (CBB Flows), which was developed by the IDB for executing this operation.⁶²
- 4.7 CBB Flows is the electronic system that channels the communication between IFIs and the Central Bank of Barbados in all that relates to the Enhanced Credit Guarantee Fund. The system makes it possible to carry out the management of the portfolio throughout the life cycle of the guarantees, from the moment of approval to the moment of the claim and the follow-up of the subsequent collection. Everything is processed through the system in a clear and transparent way. This allows to keep all the information of credits and guarantees transparent in an orderly manner. In addition, the fact that the collateral claim, facilitated by the system, generated an automatic payment at the time of default was also decisive for banks to value the guarantees as an instrument that effectively helped them reduce their portfolio risk through a full liquidity mechanism. This online system was seen as very positive by local banks, since they considered that it made the coordination of information on guarantees and credit between the different parties involved work in a more efficient and transparent way. To date, most of the financial system is participating in CBB Flows.
- 4.8 The Government of Barbados and CBB have managed to protect and promote the use of the loan resources granting partial credit guarantees with the aim of increasing SME's productivity through the improved access to medium- and long-term credit for productive investment projects. The Central Bank of Barbados was successful in setting up and implementing the Guarantee Fund, measured as the disbursement capacity of the Fund. Furthermore, the government is ensuring that the CBB keeps functioning adequately beyond the program, serving as a platform for further managing loans backed

⁶² Through the funds from the TC BA-T1032.

by the Guarantee Fund. This has shown the importance of the institutional capacity of executing agencies for project success.

- 4.9 Given the shown commitment by the borrower for achieving the development objectives, adequate coordination with involved parties and shown capacity to maintaining the required activities to ensure the sustainability of the programs results, we conclude that the borrower performance should be classified as **satisfactory**.

IV. FINDINGS AND RECOMMENDATIONS

IV.1 Dimensions 1 to 5:

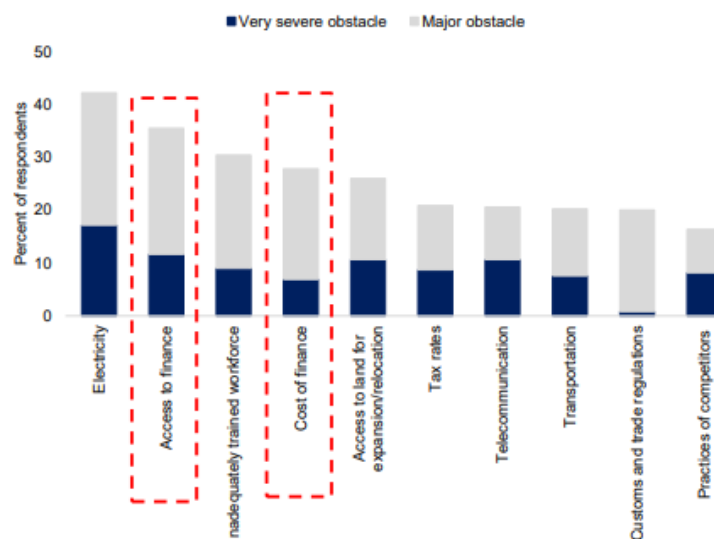
Table 6
Findings and Recommendations

Findings	Recommendations
Dimension 1: Technical-sectorial	
Finding #1: The partial credit guarantee instrument was successful in guaranteeing up to US\$52 millions of dollars in loans for SME in Barbados.	Recommendation #1: Consider continuing the support to SME in the country and in the region using this type of instrument since it can ease the collateral requirement faced by firms.
Finding #2: The Guarantee Fund, financed by the project, was able to mobilize a significant amount of private resources to SME financing.	Recommendation #2: Considering the key role of resource mobilization to achieve the commitment to the Sustainable Development Goals, it is recommended to continue the promotion of financial solutions in the region that have resource mobilization as a key element.
Finding #3: The partial credit guarantee instrument proved to be even more relevant to the country during the COVID-19 crisis.	Recommendation #3: Incorporate the experience of this project into IDB's lessons learned repository to highlight the relevance of this type of financial instrument in a context of macroeconomic adversity.
Finding #4: The indicator related to beneficiaries' revenues was not measured.	Recommendation #4: For future operations, consider the feasibility of collecting economic performance indicator of IFI clients to be used as a result indicator, given the constraints to information sharing and monitoring for this type of data.
Finding #5: Although initially contemplated, an impact evaluation was not feasible to be carried at the end of the project.	Recommendation #5: For future operations, consider a more exhaustive analysis of the budgetary, administrative, and logistical elements that determine the feasibility of an impact evaluation for the operations.
Dimension 2: Organizational and managerial	
Finding #6: Both the Government and the Central Bank of Barbados were successful in setting up and implementing the Guarantee Fund, measured as the disbursement capacity of the Fund.	Recommendation #6: Incorporate as a lesson learned for future similar operations the importance of an adequate institutional capacity of the executing agencies in order to implement this type of financing vehicles.

Dimension 3: Public processes or actors	
Finding #7: Synergies created by the project's objective and the government's efforts to further develop SMEs segment through the enactment of the Small Business Development Act to the Barbados Growth and Development Strategy Document for 2013-2020 were at the core of project success.	Recommendation #7: Incorporate as a lesson learned for future operation design, the importance of the synergy between the program's objective and the government's strategic priorities.
Dimension.4: Fiduciary	
Finding #8: Program execution was greatly facilitated by the establishment of the online platform, CBB Flows, that facilitated the collateral claim, included an automatic payment mechanism for the Banks, and managed a segregated Trust Fund to back the guarantees. This provided enhanced security for the participating IFI.	Recommendation #8. Incorporate, as a lesson learned for future operation design, the importance of arranging a solid process management framework that promotes IFI participation.
Dimension.5: Risk management	
Finding #9: Although experiencing a slight delay in execution in 2020, the project's value added remained strong and more crucial in face of the unexpected economic crisis derived from COVID-19.	Finding #9: Incorporate as a lesson learned for future operations the importance of a solid value-added proposition of the operation that could help withstand the challenges brought by unexpected turn in events at the macroeconomic level.

ANNEXES

Figure A1. Constrains on Firm Productivity and Performance in Barbados



Source: [Financial Access and Inclusion: A Diagnostic for Barbados](#), from 2014 PROTEqIN Caribbean enterprise survey.