

PROJECT PROFILE

BARBADOS

I. BASIC DATA

Project name:	Barbados Competitiveness Program		
Project number:	BA-L1007		
Project team:	Jose Jorge Saavedra (CMF/CBA), Team Leader; Maria Carina Ugarte (ICF/CMF); Gabriel Casaburi (CMF/CAR); Claudia Stevenson (ICF/CMF); Mario Umaña (INT/INT); Alejandro Taddia (INE/TSP), Astrid Wynter (ICS/CBA), Hunt Howell and Salvador Duart (Consultants), Magda Theodate (VPC/PDP); Hyun Jung Lee (LEG/SGO); Janette Archer-Headley (CCB/CBA), and Annabella Gaggero (ICF/CMF).		
Borrower	Government of Barbados (GoBA)		
Executing agency:	Ministry of Economic Affairs and Empowerment, Innovation, Trade, Industry and Commerce		
Financing plan:	IDB (OC):	US\$	10,000,000 (85%)
	Local Counterpart:	US\$	1,800,000 (15%)
	Total:	US\$	11,800,000 (100%)
Safeguards:	Policies triggered:	None	
	Classification:	Category "C"	

II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 Private sector development in Barbados takes place in the context of its special circumstances of being a small, open island economy facing new challenges derived from the regional integration process, eroding trade preferences, increasing global trade liberalization, and a fragile macroeconomic stability, all of which have directly contributed to a modest growth.¹ Limited export diversification, and a weaker external environment, reduction in tourist arrivals, and other direct and indirect impacts of the current global financial crisis are pressuring the country build the necessary structures to achieve sustained economic growth.
- 2.2 Although Barbados ranks 47th in the World Economic Forum's latest Global Competitiveness Index (GCI)², it still faces many competitive challenges, and the Barbadian Social Partnership, consisting of government, the private sector and labor unions, acknowledges the need and importance of implementing reforms to enhance the country's productivity and competitiveness³.
- 2.3 The new GCI framework identifies three pillars for microeconomic competitiveness: (i) Quality of the microeconomic business climate; (ii) degree of cluster de-

¹ Over the last three decades growth rates have been modest, below the world average. From 1999-2008, Barbados Real GDP yearly growth average was 2% (IMF Article IV, 2008).

² Global Competitiveness Report 2008-2009, World Economic Forum (WEF)

³ [BA-L1007. Back to Office Report – Orientation Mission October 19-25, 2008](#)

velopment, and (iii) the sophistication of company operations and strategy. Barbados ranks low in all three areas, indicating some important competitive disadvantages.

- 2.4 The GoBA in several recent policy documents as well as business owners and foreign investors, have expressed the need for improvement in some business climate factors, in particular those related to the time needed to start a business, cross-border transactions, and insufficient access to finance. A recent Central Bank study estimates the time required to start a domestic incorporated business to range from 281 to 480 days, while international businesses can range from 24 to 187 days. All these factors contribute to competitive disadvantage and need to be addressed in a comprehensive manner.
- 2.5 The degree of cluster development and business sophistication also highlights some important competitive disadvantages, like underdeveloped clusters, reduced quantity and quality of local suppliers, unsophisticated production processes, and lack of innovation. Given that the productivity of a country ultimately depends on the productivity of its companies, these factors are fundamental to the island's competitiveness. If Barbados is to move from an efficiency to an innovation driven economy these problems need immediate attention.
- 2.6 Building on prior sector analysis⁴, the project team undertook additional diagnostic work⁵ and identified several impediments to competitiveness in Barbados as follows: (1.1) Lack of sophisticated mechanisms to support economic analysis and policy reform regarding taxes and incentives; (1.2) Burdensome bureaucratic requirements that delay and discourage private investment; (2.1) Inadequate framework for promoting inter-firm cooperation; (2.2) Multiplicity and poorly coordinated financial and non-financial business development services (BDS); (3.1) Limited institutional capacity to take advantage of regional integration and international trade agreements like the Economic Partnership Agreement (EPA) with Europe; (3.2) Inefficient trade logistics and trade facilitation processes, thus raising production costs, making exports uncompetitive and domestic products expensive; (3.3) Lack of a coherent up-to-date National Transport Policy and Master Plan; (3.4) Lack of a Public Private Partnership framework for developing, financing and tendering infrastructure projects, and (4.1) Strong public-private dialogue (Social Partnership), but not focused on competitiveness and private sector development issues.

A. Objectives

- 2.7 The objective of the Program is to increase the competitiveness of Barbados by supporting initiatives to: (i) rationalize the incentive system and regulations to ensure a coherent framework to support business development; (ii) strengthen the

⁴ General guidelines for private sector development in Barbados were outlined in the *Barbados: Strategic Guidelines for Private Sector Development (BA-P1012)* approved by the Bank's Private Sector Committee in 2007.

⁵ Annex IV. Index of Completed and Proposed Sector Work.

productive sectors through firm-level interventions, business cooperation and entrepreneurship; (iii) improve logistics and trade facilitation, lowering the cost of the movement of goods and people, and (iv) strengthen the Social Partnership to develop consensus on competitiveness issues. Concrete activities supported by this loan are detailed below.

- 2.8 These objectives are consistent with Goal Five, “Enhancing Barbados Prosperity and Competitiveness”, of *The National Strategic Plan of Barbados 2005-2025* and with the IDB Country Strategy with Barbados (2005-2008)⁶, with respect to supporting institutional and policy reform, strengthening of the environment for investment, international trade and local business growth, and through strengthening GoBA capacity to apply Public Private Partnerships (PPP) options most effectively. The new Country Strategy (2009 – 2013), currently in preparation, underscores the importance of this operation as highly relevant to the country’s long-term development.

B. Program structure

- 2.9 The Program includes the following four components:

1. Component 1: Ensuring a coherent framework for business development: incentives and regulations.

- 2.10 **1.1 Taxes and incentives:** To support activities to: (i) undertake a comprehensive review of the tax and incentive framework, including all taxes, duties, stamps, and other types of incentives. The analysis will focus on the existing system’s impact on business development, with a particular emphasis on small and medium size enterprises (SMEs); (ii) improve commercial data collection and processing capacity to enable the Ministry of Finance and Central Bank to better measure direct and indirect effects of alternative tax and incentive regimes, and (iii) develop an Input-Output matrix sufficiently robust to support a Computable General Equilibrium (CGE) model that could be used for tax and related fiscal analysis. These initiatives will support the Tax Administration and Tax Policy reforms outlined in the *Barbados Short and Medium Term Action Plan* prepared in late 2008 by a blue ribbon working group on the economy in response to the current global and financial crisis.
- 2.11 **1.2 Business Climate Reforms:** To support the expansion of private sector participation in the economy and increase government effectiveness and efficiency in overcoming or preventing market failures, by reducing burdensome transaction costs, and providing a sound environment for private sector development. The Program will provide support in the areas of: (i) the opening and closing of a domestic business; (ii) the approval process for domestic and international investments; and (iii) the expansion of access to credit by supporting a secured transactions framework and the establishment of a credit bureau. These actions will help

⁶ Document GN-2395

achieve the GoBA's objective of providing "Hassle-Free [government] Service" as stated in the Prime Minister's annual "Throne Speech" to Parliament in February 2008.

2. Component 2: Strengthening productive sectors through firm-level intervention.

- 2.12 **2.1 Cluster promotion:** To increase productivity, competitiveness, product sophistication and marketability of products and services in key sectors by supporting inter-firm collaboration, reducing the cost of doing business, developing strategic joint projects, creating new business opportunities and supporting the integration of clusters to regional and global value chains.
- 2.13 **2.2 Business Development Services (BDS):** To rationalize the existing BDS institutional framework, support a combination of financial and non-financial business development instruments, and consider the establishment of a single window to access BDS as well as the consolidation of private sector development Funds.

3. Component 3: Improving trade logistics and trade facilitation and enhancing access to infrastructure.

- 2.14 **3.1 Trade agreement implementation:** To strengthen Barbados' capacity to effectively and efficiently take advantage of regional integration and international trade agreements by: (i) reinforcing the technical capacity needed to face the negotiation agenda; and (ii) strengthening the institutions that implement trade agreements.
- 2.15 **3.2 Trade logistics and trade facilitation:** To support the modernization of trade logistics and trade facilitation services, with emphasis on the establishment of an Electronic Single Window (ESW), the upgrade of container examination facilities and risk assessment mechanisms, as well as the overall update and improvement of customs procedures⁷.
- 2.16 **3.3 Transportation Policy and Master Plan:** To finance the design of a National Transport Policy and Master Plan, including surface, air and water transportation.
- 2.17 **3.4 Enhanced access to infrastructure through Public Private Partnerships (PPP):** To support the adoption and deployment of a PPP procurement methodology in a selected number of infrastructure projects that will allow the GoBA to examine the merits and test the benefits of adopting a complex but well-tried procurement model.

4. Component 4: Strengthening the Social Partnership to develop consensus on competitiveness issues.

⁷ This sub-component complements the Modernization of Customs, Excise and VAT Areas (1684/OC-BA) Program currently in execution, and is being designed in close coordination with the project team.

- 2.18 **4.1 Institutions to support competitiveness:** To support the GoBA in the establishment and consolidation of a National Competitiveness Council and its Competitiveness Technical Unit.

III. EXECUTION ISSUES AND RISKS

- 3.1 **Instrument and Loan Structure:** This is an investment loan consisting mainly of technical assistance activities, but also including an investment component in the trade logistics (Electronic Single Window) area. The activities under each component and the possible phasing and sequencing of the activities will be defined in detail during the preparation of the POD and once the final diagnostic sector work is completed (Annex IV). The **size of the operation** is tentatively set at US\$ 11.8 million. This amount is subject to review as the definition of project components and activities moves forward.
- 3.2 **Executing Agency.** The Ministry of Economic Affairs and Empowerment, Innovation, Trade, Industry and Commerce will be the executing agency for the Program. The GoBA will appoint a high-level multidisciplinary team to work as the Bank's counterpart in the preparation of the loan. This team will be comprised of experts from the participating Ministries and GoBA agencies. Given the complex coordination work, a Program Execution Unit (PEU) will be established for optimal Program execution.
- 3.3 **Risks.** Given that the Program is complex and that it involves several institutions, a strong executing unit with authority and high level technical staff must be established to coordinate the multiple agencies during execution. To guarantee effective implementation there is also the need for top level political support from the Prime Minister and the Cabinet as well as the commitment from the members of the Social Partnership. The project team will continue dialogue with all relevant stakeholders from GoBA and the Social Partnership during project preparation to ensure their buy-in and support to the proposed components and activities. Certain components may suffer implementation delays due to greater-than-expected legal, regulatory and/or institutional impediments. (See discussion in Appendix II, Risk Assessment Matrix)

IV. SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1 Since the Program focuses mainly on technical assistance, and the investment component is focused on the establishment of an ESW, no negative environmental or social impacts are expected. According to the ESR toolkit this project has been classified as Category "C" and no further environmental or social analysis is envisaged. (Annexes II & III)

V. RESOURCES AND TIMETABLE

- 5.1 Distribution of the POD to the QRR is expected on September 30th, 2009. About US\$55,920 will be required for a total of four missions, and US\$13,356 for consultancy services. (See Annex V).

ANNEX II. SAFEGUARD POLICY FILTER (SPF) AND SAFEGUARD SCREENING FORM (SSF)

SAFEGUARD POLICY FILTER REPORT

PROJECT DETAILS	IDB Sector	Private Sector Development
	Project Type	Investment Loan
	Additional Operation Details	
	Country	Barbados
	Project Status	New Operation
	Investment Checklist	Generic Checklist
	Team Leader	Jose Jorge Saavedra
	Project Title	Barbados Competitiveness Program
	Project Number	BA-L1007
	Safeguard Specialist(s)	<i>To be completed by assessor</i>
	Assessment Date	2009-04-23
	Assessment Number	2009-04234601-2
	Additional Comments	

SAFEGUARD POLICY FILTER RESULTS	Project Type	Investment Loan	
	Safeguard Policy Items Identified (Yes)	No issues identified	
	Potential Safeguard Policy Items (?)	No potential issues identified	
	Recommended Action	Operation has not triggered any Policy Directives. Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PCD (or equivalent) and Safeguard Screening Form to ESR. <small>Policy Directives can be accessed from the Resources tab on the Toolkit home page.</small>	
	Additional Comments		

ASSESSOR DETAILS	Name of person who completed screening:	Maria Carina Ugarte
	Title	Team Member
	Date	2009-04-23

SAFEGUARD SCREENING FORM

PROJECT DETAILS	IDB Sector	Private Sector Development
	Project Type	Investment Loan
	Additional Operation Details	
	Country	Barbados
	Project Status	New Operation
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	Team Leader	Jose Jorge Saavedra
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	Safeguard Specialist(s)	<i>To be completed by assessor</i>
	Assessment Date	2009-04-23
	Assessment Number	2009-04235801-2
	Additional Comments	

PROJECT CLASSIFICATION SUMMARY	Project Category: C	Override Rating:	Override Justification:
	Conditions/Recommendations		Comments:
		<ul style="list-style-type: none"> • Normally no environmental impact assessment studies or consultations are required for Category "C" operations. • Some Category "C" operations may require specific safeguard/monitoring requirements (Policy Directive B.3). These operations will establish safeguard/monitoring requirements for environmental and other risks (social, disaster, cultural, H&S etc.) • The Project Team must send to ESR the PP or PCD (or similar) containing the E&S Strategy (the requirements for an ESS are described in the Environment Policy Guideline: Directive B.3) plus the Safeguard Policy Filter and Screening Form Reports. <p>Policy Directives can be accessed from the Resources tab on the Toolkit home page.</p>	

SUMMARY OF IMPACTS/RISKS AND POTENTIAL SOLUTIONS	Identified Impacts/Risks	Potential Solutions
	No issues identified	

ASSESSOR DETAILS	Name of person who completed screening: Maria Carina Ugarte	Date: 4/23/2009
	Comments:	

ANNEX III. ENVIRONMENTAL AND SOCIAL SAFEGUARD STRATEGY

Since the Program focuses mainly on technical assistance, no negative environmental or social impact is expected from the execution of the Program. The investment portion of the Program, in Component III, includes the financing of an Electronic Single Window (ESW), the upgrade of container examination facilities and risk assessment mechanisms, as well as the overall update and improvement of customs procedures. Since these improvements involve the use of virtual mechanisms, environmental or social risks are not envisaged. Moreover, the Program has potential positive environmental and social effects, as it will help develop concerted actions to increase competitiveness through technical assistance. According to the toolkit this project has been classified as "C".

The Program will be designed under Bank's Policies, including the Environment and Safeguards Compliance Policy. Moreover, as the design of the operation moves on, and specific activities are defined, particular attention will be paid to possible environmental and social impacts and mitigation strategies, such as environmental assessments, consultations with local populations and other stakeholders, safeguards, and application of best practices and standards of the international community, as appropriate, specifically:

The program will support changes in the regulatory framework and institutional architecture to promote domestic and foreign investments. In this regard the program will finance activities to strengthen the primary agency responsible for assuring compliance with environmental safeguards in all physical investment activities, particularly coastal zone management. However, the program will not address issues of existing coastal degradation because such issues are already being addressed by BA-L1386.

The cluster promotion component will incorporate the standards of environmental and social quality that are becoming common practice in global export markets. The sub-component dealing with Business Development Services (BDS) will support natural resource and energy use efficiencies and access to green markets, when pertinent. It should be noted that the bank is currently supporting several sustainable energy projects. (BA-T1007: Sustainable Energy Framework for Barbados (SEFB) - US\$ 1,000,000, funded by SECCI; BA-X1001: Demonstration project under SEFB for energy efficiency and renewable energy US\$ 1,000,000, funded by GEF; RG-T1431: EE and micro generation using RE for the hotel sector, case study in Barbados US\$ 1,000,000, funded by SECCI)

CARICOM free trade agreements and negotiations will include parallel environment and labor agreements that will affect the competitiveness of the region's export sector as trade partners seek to strengthen the linkage between trade and environment policy and build capacity to help partners ensure that private sector-led economic growth in the region under a more liberalized trade regime is environmentally sustainable. The sub-component dealing with trade agreement implementation will reinforce, as appropriate, the technical capacity needed to address these issues.

The drafting of the National Transport Policy and Master Plan, including surface, air and water transportation will include a carbon footprint minimization, energy efficiency and pollution prevention strategy.

ANNEX IV. INDEX OF COMPLETED AND PROPOSED SECTOR WORK

Issues	Description	Expected Dates	References & hyper links to Technical files
I. Ensuring a coherent framework for business development: incentives and regulations.			
i. Productive Development Policies	Analysis of PDPs in Barbados	February 2008	Link: PDPs
ii. Taxes and incentives	Review of Tax Incentives & Prep Action Plan	May 2009	Link: Taxes & Incentives
iii. Business Climate reforms	Identify obstacles to business development & prepare action plan	May 2009	Link: Business Climate
II. Strengthening productive sectors through firm-level intervention			
i. Cluster promotion	Assess existing clusters & identify potential export-led clusters	March 2009	Link: Cluster Promotion
ii. Business development services	Assessment of existing BDS & action plan for improvement	March 2009	Link: BDS
III. Improving trade logistics and trade facilitation and enhancing access to infrastructure.			
i. Trade agreement implementation	Assessment of institutional support needed for EPA implementation & design of roadmap for implementation during loan execution.	July 2009	To be developed
ii. Trade logistics and trade facilitation	Trade Facilitation Diagnostic focused on possible bottlenecks in Customs, Ports and several Trade related activities.	February 2009	Link: Trade Logistics & Facilitation Link: Port Benchmarking
iii. Transportation policy and master plan	Draft TOR to commission the sector diagnostic & preparation action plan to update the National Transportation Policy and Master Plan	July 2009	To be developed
iv. Enhanced access to infrastructure through Public Private Partnerships (PPP)	In depth review of legal and regulatory framework for PPPs	March 2009	Link: PPPs