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BARBADOS

**PROGRAMME TO STRENGTHEN PUBLIC POLICY AND FISCAL MANAGEMENT
IN RESPONSE TO THE HEALTH AND ECONOMIC CRISIS CAUSED BY
COVID-19 IN BARBADOS**

(BA-L1050)

LOAN PROPOSAL

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ABBREVIATIONS	
BERT	Barbados Economic Recovery and Transformation Plan
BRA	Barbados Revenue Authority
CAF	Development Bank of Latin America
CBA	Cost-Benefit Analysis
CDB	Caribbean Development Bank
CEA	Cost-Effectiveness Analysis
COVID-19	Coronavirus Disease 2019
CRF	Corporate Results Framework
ECG	Evaluation Cooperation Group
ECLAC	Economic Commission for Latin America and the Caribbean
EFF	Extended Fund Facility
EIB	European Investment Bank
EOIR	Exchange of Information Request
FY	Fiscal Year
GDP	Gross Domestic Product
HOPE	Home Ownership Providing Energy
ICT	Information Communication Technologies
IDB	Inter-American Development Bank
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
MDB	Multilateral Development Bank
MFEI	Ministry of Finance, Economic Affairs and Investment
MSE	Micro and Small-Sized Enterprise
MSMEs	Micro, Small, and Medium Sized Enterprises
NIS	National Insurance Scheme
OECD	Organisation for Economic Co-operation and Development
OVE	Office of Oversight and Evaluation
PBL	Policy-Based Loan
PBP	Programmatic Policy-Based Loan
PPE	Personal Protective Equipment
SARS-CoV-2	Severe Acute Respiratory Syndrome Coronavirus 2
SCL	Social Sector
SDL	Special Development Lending
SME	Small and Medium Sized Enterprises
TC	Technical Cooperation
WHO	World Health Organisation

PROJECT SUMMARY
BARBADOS
PROGRAMME TO STRENGTHEN PUBLIC POLICY AND FISCAL MANAGEMENT IN RESPONSE TO THE
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(BA-L1050)

Financial Terms and Conditions				
Borrower			Flexible Financing Facility ^(a)	
Government of Barbados			Amortisation period:	20 years
Executing agency			Disbursement period:	12 months
Ministry of Finance, Economic Affairs and Investment (MFEI)			Grace period:	5.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based
IDB (Ordinary Capital):	120,000,000	100	Credit fee:	(c)
			Inspection and supervision fee:	(c)
Total:	120,000,000	100	Weighted average life:	12.75 years
			Currency of approval:	Dollars of the United States of America
Project at a Glance				
Project objective/description: The general objective of the programme is to strengthen the efficiency and effectiveness of public policy and fiscal management in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures. The specific objectives are: (i) to promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19; (ii) to strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) to promote economic and fiscal recovery during the post-pandemic period.				
To meet the objectives, the Bank has structured a programmatic Policy-Based Loan series consisting of two technically related and financially/contractually independent operations, as per document “Policy-Based Loans: Guidelines for Preparation and Implementation” (CS-3633-2).				
Special contractual condition prior to the first and sole disbursement of the first Programmatic Policy-Based Loan (PBP): The first and sole disbursement of loan resources will be subject to the borrower’s fulfilment of the policy reform conditions in the Policy Matrix (Annex II), the Policy Letter , and any other conditions set forth in the corresponding loan contract (¶3.4).				
Exceptions to Bank policies: None.				
Strategic Alignment				
Challenges: ^(d)	SI	<input checked="" type="checkbox"/>	PI	<input type="checkbox"/>
Crosscutting themes: ^(e)	GD	<input type="checkbox"/>	CC	<input checked="" type="checkbox"/>
			IC	<input checked="" type="checkbox"/>

^(a) Under the terms of the Flexible Financing Facility (FN-655-1), the borrower has the option of requesting changes to the amortisation schedule as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date, as documented in the loan contract.

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

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1. Macroeconomic context

- 1.1 Between 2010 and 2018, Barbados faced a period of severe macroeconomic distress, characterised by low economic activity with essentially zero average real Gross Domestic Product (GDP) growth. Recurring fiscal deficits led in Fiscal Year (FY) 2017/2018 to a historically high public debt (158.3% of GDP), while international reserves reached a low of US\$205.7 million (5-6 weeks of import coverage).¹ To address these challenges, the Government of Barbados launched in 2018 a Barbados Economic Recovery and Transformation Plan (BERT) to restore fiscal and debt sustainability, increase the country's international reserves, and promote sustained economic growth.
- 1.2 The BERT is the base for an International Monetary Fund (IMF) Extended Fund Facility (EFF), approved in October 2018 for US\$290 million,² which targets a debt-to-GDP ratio of 60% by 2033. The EFF has been successfully implemented and after two (2) years and three (3) reviews, the programme remains fully on track.³ In addition, the Bank has been assisting the Government of Barbados in its efforts to regain fiscal sustainability and economic growth by providing budget support to strengthen macro-fiscal stabilisation policies through the approval of a US\$100 million Special Development Lending (SDL) operation (4656/OC-BA of November 2018) and a policy-based loan of US\$80 million (4987/OC-BA of March 2020).
- 1.3 Despite the progress made, the COVID-19 pandemic is taking its toll on the Barbados' economy. The halt in tourism arrivals since March 2020 has resulted in an economic contraction of 14.9% in the first semester and it is expected to lead to an overall contraction of at least 11.6% in 2020 (Table 1).⁴ This negative impact could worsen depending on the ability to reopen borders, the pace of recovery of international tourism, as well as on possible future intermittent curfews to manage the pandemic.⁵ The current account balance is expected to deteriorate from -3.1% of GDP in 2019 to an estimated -10.2% in 2020. Employment levels have also fallen as a consequence of the economic slowdown. Between March 23 and September 25, 2020, the National Insurance Scheme (NIS) paid Bds\$114 million

¹ IMF (2020).

² In June 2020, the EFF's envelope was increased by US\$91 million in response to the COVID-19 pandemic, raising the total to US\$381 million.

³ The dates of the three reviews were June 2019, November 2019, and June 2020. All the EFF's quantitative performance criteria and two out of three structural benchmarks for end-March 2020 were met (IMF 2020).

⁴ Tourism is the main driver for growth, accounting for 30.9% of GDP (2019) and employing 33.4% of the labor force. [World Travel and Tourism Council Data](#) (2020).

⁵ Review of Barbados' Economic Performance (January to March 2020) – Central Bank of Barbados.

(US\$57 million) to cover 31,600 unemployment claims (approximately 20% of the workforce).^{6,7}

- 1.4 On the fiscal side, the country was making substantial progress before the health emergency, with the primary fiscal balance improving from 3.3% of GDP in FY2017/2018 to 6.3% in FY2019/2020. For FY2020/2021, revenues are expected to fall (from 31.2% of GDP the previous year to 29.2%) and expenditures are likely to rise significantly (from 27.4% to 31.9% of GDP) as a result of the response measures to support individuals and businesses. This will hinder the fiscal balance, which is expected to fall from 3.8% in FY2019/2020 to -2.7% in FY2020/2021. Consequently, the primary fiscal target under the EFF has been renegotiated and revised downward from 6% of GDP to 1% in FY2020/2021. The debt-to-GDP ratio is also expected to increase to 133.6% by FY2020/2021, as the government takes on additional borrowing to cover its financing needs.

Table 1. Selected economic indicators

	2017	2018	Est. 2019	<u>Projections</u>	
				2020	2021
Real GDP Growth (% change)	0.5	-0.6	-0.1	-11.6	7.4
Unemployment rate (%)	10.0	10.1	10.1	n.a	n.a
Inflation (period average in %)	4.4	3.7	4.1	2.9	1.6
Current account balance	-3.8	-4.0	-3.1	-10.2	-6.0
	FY2017/18	FY2018/19	FY2019/20	FY2020/21	FY2021/22
Total revenue (% GDP)	28.6	29.2	31.2	29.2	30.9
Tax revenue (% GDP)	26.7	27.5	29.1	26.9	28.6
Total expenditure (% GDP)	32.9	29.5	27.4	31.9	31.6
Current expenditure (% GDP)	31.2	27.6	25.5	29.0	28.8
Fiscal balance (% GDP)	-4.3	-0.3	3.8	-2.7	-0.7
Primary fiscal balance (% GDP)	3.3	3.5	6.3	1.0	3.5
Gross financing needs (% GDP)	58.9	20.5	10.8	18.1	12.2
Debt (% GDP)	158.3	125.6	122.2	133.6	124.2

Source: IMF 2020 and Central Bank of Barbados' Economic Performance Review.

2. The COVID-19 pandemic and the health crisis

- 1.5 The Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-CoV-2), which causes COVID-19, was detected in China in late 2019 and quickly spread around the world. On March 11th, 2020, the World Health Organisation (WHO) declared the disease a pandemic. By November 5th, 2020, there were over 48.5 million confirmed infections, and about 1,231,017 deaths around the globe.⁸ While the spread of

⁶ The full impact on the unemployment rate at year-end 2020 is still uncertain. It will majorly depend on the time it takes to reactivate key sectors of the economy as the tourism industry, the evolution of the current pandemic and lockdowns, and on whether there is another wave of COVID-19 in autumn.

⁷ [Barbados Today](#).

⁸ [WHO](#) (2020).

SARS-CoV-2 in Latin America and the Caribbean (LAC) began later than in Asia and Europe, the number of cases in the region has risen rapidly. As of November 5th, 2020, the number of confirmed infections in LAC was 11.4 million, with a death toll of 406,752,⁹ figures that will quickly become obsolete. The Caribbean region has also been affected by the COVID pandemic registering a total of 32,440 cases and 724 deaths. In Barbados, as of November 5th, 2020, the number of COVID-19 cases so far has been 239 with 7 deaths.¹⁰

- 1.6 COVID-19 is highly contagious,¹¹ with the average number of cases reported by country increasing by approximately 33% daily (in the absence of lockdown measures).¹² This high infection rate causes sudden spikes in cases that can decimate the capacity of healthcare systems because sick patients require specialized medical care. Social distancing and isolation have become essential measures in the public health response, as they slow COVID-19 transmission¹³ and postpone the demand for medical services.¹⁴ Implementing these types of measures is especially important in LAC, considering that most of the countries' health systems are not prepared to deal with a pandemic.¹⁵
- 1.7 While social distancing and preventive isolation can reduce the speed of contagion of COVID-19, these measures do not entirely stop the disease from spreading. Countries have, therefore, implemented additional health measures. For example, to replicate relatively successful experiences such as that of the Republic of Korea, early health interventions are necessary to conduct mass testing of individuals to detect the virus and track possible cases of infection for subsequent isolation. These interventions have proven effective in ending health crises faster.^{16,17} It is also important to expand healthcare services to deliver care to infected individuals with severe symptoms. Both types of interventions require material and financial resources, which must be provided urgently and expeditiously. In many regions, including LAC, governments are ramping up spending on health. Haiti, for example, announced a package of measures in this sector involving spending equivalent to 1.6% of its GDP to direct health care and security spending, as well as transfers to support workers and households. Similarly, Trinidad and Tobago, Jamaica, The Bahamas and Suriname announced a series of health measures at an approximate cost of 2.5%, 1.1%, 0.6% and 0.06% of GDP, respectively.¹⁸ In the case of Barbados, the preliminary cost of announced measures to confront the pandemic amounts to over US\$411.3 million (8.9% of GDP). These include health, social, fiscal

⁹ [IDB's Division of Health and Social Protection based on European CDC data.](#)

¹⁰ [WHO](#) (2020).

¹¹ [COVID-19 can spread from person to person through respiratory secretions and direct contact.](#)

¹² Financial Times (2020).

¹³ Social distancing measures are very important when private decisions do not factor in the cost of not containing the contagion, although by restricting work and consumption, they deepen the economic crisis and increase the relevance of governments' fiscal performance. Eichenbaum et al. (2020) show that the value of lives saved can be greater than the economic cost of an effective and temporary distancing policy. M.S. Eichenbaum, S. Rebelo, and M. Trabandt. (2020). The Macroeconomics of Epidemics (No. w26882). National Bureau of Economic Research.

¹⁴ [J. Hellewell, S. Abbott, A. Gimma, N.I. Bosse, C.I. Jarvis, T.W. Russell, et al. \(2020\); T. Day, A. Park, N. Madras, A. Gumel, and J. Wu \(2006\); N. Ferguson, D. Cummings, C. Fraser, J.C. Cajka, P.C. Cooley, and D.S. Burke \(2006\); A. Dénes and A. Gumel \(2019\); and Imperial College \(2020\).](#)

¹⁵ IDB's Social Sector (SCL) (2020).

¹⁶ [S. Correia, S. Luck, and E. Verner.](#)

¹⁷ [K. Prem, Y. Liu, T.W. Russell, et al.](#)

¹⁸ IDB/FMM (2020).

and financial stimulus packages outlined in the 5-part Economic Stabilisation Programme over a two-year period and in the new measures announced by the authorities in the third quarter of 2020.¹⁹

3. Public policy and fiscal management challenges during health crises

- 1.8 Public policy and fiscal management play a central role, ensuring availability and timely execution of resources. Good practices during emergencies highlight the importance of having strong institutions, policies, processes, and information systems that are efficient, reliable, transparent, and encourage accountability.²⁰ Nevertheless, in previous health crises fiscal management institutions and systems had weaknesses and became bottlenecks, which reduced the public sector's response capacity in crucial areas.²¹ The biggest challenges during the pandemic lie mainly in: (i) the lack of additional budgetary and financial resources to respond to the crisis; (ii) the unavailability of funds for service delivery units and for timely disbursements, with due regard to controls; and (iii) the lack of transparency in the use of resources deployed as part of crisis response and reporting,²² and problems with business continuity in the face of large-scale staff shortages. Tackling these challenges requires changes in existing budgetary regulations for more efficient allocation and execution of public resources.
- 1.9 The Government of Barbados responded swiftly to the pandemic, issuing an Emergency Management (COVID-19) Curfew Directive in March 2020. The directive introduced a series of economic and fiscal stabilisation measures to address the toll of the health crisis.²³ The national response focused on the fast tracking of capital projects, the renovation of healthcare facilities, procurement of Personal Protective Equipment (PPE) and the completion of a new isolation hospital. The government also announced additional funding to the health sector.²⁴

4. The pandemic and its effects on household and business income

- 1.10 Social distancing measures, necessary during the health crisis to save lives, lead to higher unemployment and loss of household income due to the decrease in economic activities in key sectors such as the hospitality sector and the services industry. Unlike developed countries, which have consolidated social security systems, in LAC, such systems are inadequate and inefficient partly due to the high levels of informal labour. The informal sector in LAC is estimated to account for 53% of the workforce (some 140 million workers). This high degree of labour

¹⁹ This figure includes announced spending on medical supplies (Bds\$7.8 million), purchase of medicines (Bds\$7.5 million), the VAT Loan Fund (Bds\$40 million), the Small Business Wage Fund (Bds\$20 million), the Small Hotel Investment Fund (Bds\$20 million), the Barbados Economic and Sustainable Transformation programme (Bds\$300 million), the Agriculture Development Fund (Bds\$25 million), the Household Survival Programme (Bds\$20 million), the Business Interruption Benefit (Bds\$20 million), the Home Ownership Providing Energy (HOPE) (Bds\$250 million), the creative industries stimulus (Bds\$1 million) and the COVID Relief Programme (Bds\$40 million).

²⁰ World Bank Group (2019).

²¹ [S. Saxena and M. Stone \(2020\)](#).

²² Including exploiting the fungibility of resources in treasury single accounts. According to Yaker et al. (2012), proper sole account management can help countries gain access to liquidity. I. F. Yaker and S. Pattanayak (2012).

²³ COVID-19 Multi-Sectoral Response Plan for the Eastern Caribbean Funding Appeal (30 April 2020).

²⁴ This includes Bds\$7.8 million to fund additional medical supplies and Bds\$7.5 million to purchase additional health equipment.

informality is heavily concentrated among poor and low income- households.²⁵ The informal labour force in LAC is especially exposed to external shocks as these businesses operate unregistered within the region.

- 1.11 Barbados has instituted a number of social protection measures to cushion the impact on vulnerable persons, based on its social protection programmes.²⁶ The measures have been outlined under a five-part economic plan to provide welfare support, creative industry stimulus²⁷ and household survival programmes.²⁸ Under the NIS, formal sector workers are supported by the unemployment benefit fund. A Bds\$20 million household survival programme has been set up to cover both a 40% increase in the Welfare Department's programme's rates, which will cover households that do not benefit from the NIS unemployment benefits, and the government's contribution to Adopt our Families Programme. Additionally, the Home Ownership Providing Energy (HOPE) programme (budgeted at Bds\$250 million) was designed to help over 1,000 households earning below Bds\$4,000 a month, to construct and own affordable housing. Fostering green growth, the government plans for all homes to be energy efficient and solar powered.²⁹
- 1.12 An effective policy protecting household income during crises is to support the businesses where the individuals from those households' work,³⁰ as a way of preventing widespread job losses and bankruptcies. While the economic crisis caused by COVID-19 is affecting most of the economy, some sectors are harder hit than others, including tourism, recreation, and food services, as a consequence of the powerful impact that social distancing and isolation measures have on them. The sharp fall in sales also creates liquidity problems for businesses, in many cases exacerbated by the destruction of the payment chain. These liquidity problems tend to affect Micro, Small, and Medium Sized Enterprises (MSMEs) more acutely given their more limited access to financing. In LAC, this liquidity problem may be more severe than in developed countries considering the high rates of informal business, which makes access to financing difficult. The latest available data indicate that there are over 10 million micro and small enterprises (with 50 or fewer employees) in LAC. These businesses employ 47% of the region's workforce.³¹ In the case of Barbados, it was estimated that 9,651 formal businesses, employing a labour force of 100,450 employees, existed in 2015. About 96.3% of those businesses were MSMEs, which employed 60.7% of the labour force.³² The government has approved a series of measures to help businesses, including a Business Interruption Benefit for self-employed persons who are registered and compliant with the NIS and have

²⁵ J. M. Salazar-Xirinachs and J. Chacaltana (2018).

²⁶ Barbados offers universal access to social services through a public health and education system (free at the point of service), the NIS and a broad range of social assistance programmes.

²⁷ The industry plays a key role in the enhancement of the social, cultural and economic values of Barbados.

²⁸ [Barbados Economic Stabilisation Programme](#). The plan includes (i) support to vulnerable households; (ii) jobs, investment, and business survival programme; (iii) public and private capital works programme; (iv) greater food self-sufficiency; and (v) non-fiscal measures.

²⁹ [Speech from the Throne by Her Excellency Dame Sandra Mason](#), G.C.M.G., D.A., Q.C.

³⁰ International Labour Organisation. A review of global fiscal stimulus.

³¹ Thematic Labour Overview. "Small Enterprises, Large Gaps. Employment and Working Conditions in Micro and Small Enterprises in Latin America and the Caribbean." Regional Office for Latin America and the Caribbean, International Labour Organisation (2015).

³² Lashley and Moore (2016), "The State of Small Business in Barbados", commissioned by the Small Business Authority. In 2015, 3.7% of formal private sector employment was in agriculture, 21% in industry, and 75.2% in services. In terms of the distribution of firms: 5.8% were agricultural firms, 16.6% industrial firms and 77.3% service sector firms.

been impacted by the declaration of the health emergency (Bds\$1,500 per month for April and May reaching a total budgeted Bds\$20 million for the programme), a Bds\$20 million small business wage fund for Micro and Small-Sized Enterprises (MSEs), and the deferment of employer's contributions to the NIS for three months for companies that retain 75% of their workers.

5. Public policy and income protection

- 1.13 Public policy and fiscal management can play a crucial role in economic crises such as the one caused by COVID-19,³³ protecting household income during the social distancing period and supporting the survival of businesses to keep jobs safe. Proper fiscal policy design and implementation for these purposes during the current crisis presents significant challenges. In order to maximize intervention efficiency, the fiscal measures introduced must benefit those individuals and sectors that need it most, when they need it most.³⁴ With respect to the issue of selecting beneficiaries for both tax benefits and subsidies, targeting difficulties arise mainly due to the absence or lack of reliability of integrated systems containing information about individuals, owing to the fact that such systems generally contain partial, often outdated information, particularly in the case of individuals in informal labour situations.³⁵ This incomplete information leads to both intentional and unintentional targeting errors, reducing efficiency in the use of public resources. To address this challenge, public policy design must focus on transparency in the use of these public resources, to increase accountability of executing agencies and reduce room for misuse.³⁶
- 1.14 Fiscal policies that support households are also usually difficult to reverse, especially if the benefit duration is prolonged. This is because individuals begin to consider such benefits as acquired rights, which raises the political cost of withdrawing them. One of the main lessons of the fiscal policy response in LAC to the 2009 global financial crisis was that various programmes introduced during the crisis to mitigate its effects ended up becoming permanent programmes that were not reversed once the economic shock had subsided.³⁷ This ended up eroding fiscal fundamentals in the medium term.³⁸ Thus, to encourage efficient use of public resources, time-bound provisions³⁹ must be considered in household and business support policies from the outset so that such policies do not become recurrent costs. In the case of Barbados, transfers and subsidies have persistently accounted for a large share of total expenditure (averaging 28% of total expenditure between FY2015/2016 and FY2019/2020).⁴⁰ However, the government has indicated that all of the extraordinary social spending policies implemented during the health crisis will be temporary, with the understanding that it is possible to extend these depending on the economic situation in the post-pandemic period.

³³ K. Storesletten, C. Telmer, and A. Yaron (2001).

³⁴ V. Gaspar and P. Mauro (2020).

³⁵ Izquierdo, Pessino, and Vuletin (2018).

³⁶ S. Cecchini and A. Madariaga (2011).

³⁷ IMF (2015).

³⁸ Between 2008 and 2019, public debt jumped from 40% of GDP to close to 60% of GDP for a typical country in the region.

³⁹ V. Gaspar and P. Mauro (2020).

⁴⁰ IMF (2020 and 2018). Transfers and subsidies exclude payment of retirement benefits.

6. The economy and public finance during recovery from the pandemic

- 1.15 While the global growth outlook is still highly uncertain, estimates from the Organisation for Economic Co-operation and Development (OECD) point to a contraction of around 4.5% in worldwide real GDP in 2020.⁴¹ For LAC, the preliminary estimates of the Economic Commission for Latin America and the Caribbean (ECLAC) indicate a 9.1% contraction in regional GDP⁴² and an increase in unemployment of 13.5 percentage points. ECLAC expects this to lead to a spike in poverty, with 45.4 million new people sinking into poverty and 28.5 million descending into extreme poverty.⁴³ In the case of Barbados, the negative external demand shock is expected to cause a deep recession and an increase in unemployment, with the economy projected to contract by about 11.6% in 2020.⁴⁴ Poverty and inequality indicators are likely to deteriorate during this period. The economy is not expected to start its recovery until the end of 2020.
- 1.16 On the fiscal front, the loss of fiscal revenue resulting from the economic contraction, combined with higher spending to contend with the health, economic, and social crisis, will put pressure on Barbados' fiscal and public debt positions. The projected revenue loss for FY2020/2021 in Barbados is forecasted at Bds\$498 million (from Bds\$3.3 billion (US\$1.65 billion) projected to Bds\$2.8 billion (US\$1.4 billion) according to the latest estimates), equivalent to 1% of GDP.⁴⁵ The main source of revenue loss stems from inactivity in the tourism sector, which has experienced a sudden stop since mid-March 2020.⁴⁶ The curfews imposed have also had a negative effect on domestic production and consumption and will thus also contribute to the loss in revenues.⁴⁷
- 1.17 Given the severe impact of the COVID-19 health crisis on economic activity, the post pandemic period will require support policies to rebuild the economy and restore fiscal performance. The Government of Barbados appointed in April 2020 a Jobs and Investment Council tasked with reactivating private sector driven growth in multiple strategic sectors, as well as modernizing the economy. The Council includes committees looking at industrial transformation, digital transformation, retail and services, finance and insurance, and trade and logistics, among others. Over the years, the government has developed multiple services to support MSMEs in agriculture, tourism, manufacturing and services. These services will be even more important in the post-COVID period. In addition, the Government of Barbados is committed to continuing to make progress in improving the business climate.
- 1.18 **Bank operational work and technical support in the country and lessons learned.** The Bank has assisted the Government of Barbados in its efforts to regain fiscal sustainability and economic growth (§1.2). Additionally, the Bank has

⁴¹ [OECD \(2020\)](#).

⁴² Some private-sector analysts estimate a more severe recession in the region, with a 3.8% drop in real GDP in 2020 (Goldman Sachs, March 2020).

⁴³ [\(ECLAC, 2020\)](#).

⁴⁴ IMF (2020).

⁴⁵ IMF (2020).

⁴⁶ International flights have come to a halt since the last week of March 2020. In 2019, [travel and tourism](#) accounted for 30.9% of GDP when considering indirect effects on other sectors and contributed to 33.4% of total employment.

⁴⁷ A 24h curfew was set on April 3rd, 2020 and was eased on the last week of April 2020.

supported the strengthening of the government's revenue policy by conducting a study on the implications of the 2019 revenue reform, in August 2019, and a study on the quantification of revenue expenditures, in February 2020, under the Technical Cooperation (TC) ATN/OC-16484-BA. Under this TC, the Bank has also been supporting the government's Inter-Ministerial Working Group to improve its current model for fiscal projections. The Bank also provided Barbados with support towards economic diversification and growth, through ATN/CO-17589-BA to strengthen the new Ministry of the Maritime Affairs and Blue Economy and to develop an integrated policy framework and strategic action plan/roadmap that would have the highest impact on supporting the growth of private blue economy firms, including women-owned firms. Moreover, through ATN/CN-17624-RG the Bank is assisting four exporting manufacturing firms in Barbados and some tourism enterprises to adopt cutting edge technology in their sectors that could increase competitiveness. Lastly, the Bank has actively contributed to the dialogue on fiscal and financial management, growth and diversification issues, through its participation in national committees and regional technology events, on-going dialogues, dissemination of research and advisory services. The main lesson from these interventions is that it is important to complement technical support with an increase in the capacity of the State to devise, formulate and implement policy reforms.

- 1.19 **The Bank's experience and lessons learned in the region.** The IDB Group has provided support to the region during various crises (macroeconomic crises, health crises, and natural disasters) to mitigate their immediate effects and to design reforms for the recovery period. The Bank's support varies depending on the nature of the crisis to be addressed.⁴⁸ Therefore, specifically in the area of fiscal policy and management, this programme has considered lessons learned during the execution and implementation phases, from other operations such as the one that was carried out with the Government of Ecuador that focused on re-establishing macroeconomic stability, restoring fiscal sustainability, and safeguarding social spending in support of the vulnerable population (Emergency Programme for Macroeconomic Sustainability and Prosperity (4771/OC-EC).
- 1.20 Lessons have also been gathered from the Macroeconomic Emergency Programme to Protect Economic and Social Progress (4656/OC-BA) in Barbados. The project supported the government in re-establishing macroeconomic stability, fostering a sustainable fiscal balance in the short term, medium term, and protecting social spending to safeguard the social progress made. One of the lessons learned is that continuous dialogue and coordinated efforts regarding technical assistance can improve the results when implementing a reform in this area. The Bank has also provided support to countries in their reform processes to improve tax policy and administration, public expenditure quality, and the strengthening of fiscal sustainability,⁴⁹ trade and integration and attraction of foreign investment. Finally, this operation incorporates in its design the lessons learned from other PBPs approved this year to support countries during the health and economic crisis caused by COVID-19 in Uruguay (5034/OC-UR), Dominican Republic

⁴⁸ The first contingent financing instrument for natural disasters was the Contingent Credit Facility for Natural Disaster Emergencies. Examples include the Dominican Republic (DR-X1003), Honduras (HO-X1016), Ecuador (EC-X1014), and others (RE-496-1).

⁴⁹ The most recent policy reform support programmes include the Programme to Deepen Fiscal Reform in Colombia (4552/OC-CO), the Programme to Support Fiscal Sustainability in Costa Rica (4819/OC-CR), and the Finances for Sustainable Development Programme in Paraguay (4667/OC-PR).

(5062/OC-DR), El Salvador (5046/OC-ES), Paraguay (5028/OC-PR and 5029/KI-PR), and Trinidad and Tobago (5064/OC-TT), such as the importance of coordinating financial support with other multilateral institutions, the fiscal sustainability of transfer programmes that protect households' income and businesses' liquidity (particularly Small and Medium Sized Enterprises (SMEs)), and the creation of task forces that help to prioritize and facilitate government efforts during the pandemic⁵⁰.

- 1.21 **Coordination with other Bank projects.** This programme is consistent with the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (GN-2996), as it forms part of the Bank's support to its borrowing member countries in the adoption of fiscal policies to mitigate the effects of the health crisis and alleviate the economic impacts. Given the fall in revenues and the additional spending requirements in the areas of health, social protection and business support, Barbados is facing an external financial gap of US\$402 million⁵¹ in 2020, of which US\$233 million is COVID-19 related, and is seeking the support of Multilateral Development Banks (MDBs) to close it. In order to support the government's response this programme will coordinate efforts with funds from a global credit programme for safeguarding the productive fabric and employment that will provide US\$30 million to support immediate and medium term response to COVID-19 efforts by contributing to the increased productivity of MSMEs. Additionally, the Barbados Public Sector Modernization Programme (4920/OC-BA) is financing the upgrading of government ICT infrastructure, a digital document and records management system, and common services for digital transactions, on which a system of national, digital identification cards included in the second tranche can be launched. This coordination seeks to leverage synergies to increase the impact of the Bank's interventions. The Bank will also provide support through a regional TC (ATN/OC-18057-RG) to strengthen fiscal management, which was approved in June of 2020. The objective of the TC is to support governments in the Caribbean, both at the national and sub-national levels, in their efforts to strengthen the efficiency, effectiveness and equity of fiscal policy and management in order to respond to the economic and social emergency caused by COVID-19.
- 1.22 **Financial support to respond to the pandemic.** In terms of international financial assistance to address the unprecedented financial demands of COVID-19, the Government of Barbados is seeking financial support from multilateral institutions for a total amount of US\$402 million. This includes a US\$200 million budget support package from IDB including this operation (US\$120 million) and US\$80 million disbursement from the "Sustainable Development Policy Program" (4987/OC-BA)⁵², US\$90 million additional budget support from the IMF, US\$12 million from the European Investment Bank for a water sector loan, and a US\$100 million loan from the Development Bank of Latin America (CAF).
- 1.23 **Coordination with other donors.** During the preparation of this operation, the Bank consulted with the IMF, the Caribbean Development Bank and CAF in order to share

⁵⁰ This function is key, particularly due to the difficulty in balancing short-term emergency needs and long-term fiscal sustainability goals during the transition created by such an event.

⁵¹ IMF (2020). The financing gap is defined as gross external financing requirements minus sources financing including net foreign direct investment, public long-term borrowing, net errors, and omissions, change in reserves, other net capital flows and short-term private inflows.

⁵² This amount was disbursed in April 2020.

information and coordinate actions and activities. The Bank consults on a trimestral basis with the IMF and the Caribbean Development Bank to assess financing needs and progress under the EFF. During the programme's execution, a collaborative process with multilateral and donor entities will be implemented, which will include technical coordination dialogue and coordination.

- 1.24 **Strategic alignment.** The programme is consistent with the Second Update to the Institutional Strategy (AB-3190-2) and is aligned with the development challenge of Social Inclusion and Equality, through measures to ensure the maintenance of essential health services in order to overcome the health crisis. The programme is also aligned with the crosscutting themes corresponding to: (i) Institutional Capacity and Rule of Law inasmuch as it will strengthen fiscal policy and management to tackle the health, economic, and social crisis; and (ii) Climate Change and Environmental Sustainability, as it will finance climate change mitigation measures in the housing programme. According to the [joint MDB methodology on climate finance tracking](#), 6.67% of total IDB funding for this operation result in climate change mitigation activities. This contributes to the IDB's climate finance goal of 30% of approvals by 2020. The operation will also contribute to the Corporate Results Framework (CRF) 2020-2023 (GN-2727-12).⁵³ The programme is consistent with the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (GN-2996). It is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-2) as concerns strengthening public sector management, and it is consistent with the Fiscal Policy and Management Sector Framework Document (GN-2831-8), which highlights the importance of institutional strengthening to improve public expenditure quality as well as fiscal equity and social inclusion and with the Integration and Trade Sector Framework (GN-2715-11) as it will reduce traditional trade costs and associated regulatory costs. Finally, the programme is included in the Update of the Annex III of the 2020 Operational Program Report (GN-2991-3).

B. Objectives, components, and cost

- 1.25 **The general objective** of the programme is to strengthen the efficiency and effectiveness of public policy and fiscal management in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures. The specific objectives are: (i) to promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19; (ii) to strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) to promote economic and fiscal recovery during the post-pandemic period. To meet this objective, the Bank has structured a programmatic Policy-Based Loan series consisting of two technically related and financially/contractually independent operations, as per document "Policy-Based Loans: Guidelines for Preparation and Implementation" (CS-3633-2).
- 1.26 This first operation mainly focuses on supporting policy measures undertaken during the pandemic period that aim to promote the availability and efficient

⁵³ Four CRF level 2 indicators have been identified in the Annex I – Summary Development Effectiveness Matrix.

execution of resources during the emergency, support household income and business liquidity, and begin to define a social, economic and fiscal plan to find a way out of the pandemic. The second operation in the series will seek to promote economic and fiscal recovery in the medium term by implementing policies that enable a return to growth with equity and fiscal sustainability in the post-pandemic period. The programme is organized into the following components:

- 1.27 **Component 1. Macroeconomic stability.** The objective of this component is to ensure and maintain a macroeconomic context consistent with the programme objectives as set forth in the Policy Matrix and the sector policy letter.
- 1.28 **Component 2. Strengthening public policy and fiscal management to respond to the health crisis caused by COVID-19.** The objective of this component is to ensure the timely availability of financial resources to respond to the health crisis caused by COVID-19. In order to achieve this objective, the programme will support the allocation of budgetary resources to the health sector in order to implement the following measures: (i) approve the increase in the stock of medicines to 6 months of supplies equivalent to Bds\$7.8 million; (ii) commit Bds\$7.5 million to purchase additional health equipment; and (iii) ensure the completion of adequate isolation facilities at Harrison's Point.
- 1.29 The second operation in the programmatic series will focus on the allocation of the budgetary resources to the health sector in order to: (i) manage the health consequences of COVID-19; (ii) attain the required level of health services to manage and/or suppress future COVID-19 cases; and (iii) realise any potential increases in health personnel at Harrison's Point to support COVID-19 efforts.
- 1.30 **Component 3. Strengthening public policy and fiscal management to respond to the economic crisis.** The objective of this component is to strengthen the countercyclical effect of public policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis. To achieve this objective, the policy measures for protecting vulnerable households include: (i) approval of a Bds\$20 million household survival programme, which supports a 40% increase in cash transfer benefits in the Welfare Department and expands the number of persons receiving a government transfer; (ii) set up an 'Adopt Our Families' fund, of private donations combined with public funds to provide cash transfers to vulnerable households;⁵⁴ (iii) approval of a creative art stimulus package of Bds\$1 million to support artists and athletes during the pandemic; and (iv) approve the 'Home Ownership Providing Energy' (HOPE) programme to provide credit for households with income of up to Bds\$4,000 per month to build or buy a home.⁵⁵ Additionally, the policy measures that aim to provide temporary liquidity protection for businesses affected by the crisis, and thereby protect jobs, are the following: (i) approval of a Business Interruption Benefit for self-employed persons who are registered and compliant with the NIS and impacted by the declaration of the public health emergency; (ii) approval of a Bds\$20 million small business wage fund for SMEs,

⁵⁴ The programme appeals to households and companies to make contributions to provide vulnerable families with monthly support.

⁵⁵ This housing programme features the construction of 1,000 affordable homes. All homes will be energy efficient and solar powered (¶1.11).

providing Bds\$500 per month per employee, up to five employees, for two months;⁵⁶ and (iii) approval of a deferment of employers' contributions to the NIS for three months for companies that retain 75% of their workers.

- 1.31 The second operation in the programmatic series will support the following measures to support vulnerable households: (i) complete an evaluative report on the implementation of all the programmes listed in 3.1 (i) to (iv) of the Policy Matrix for the First Programmatic Operation to measure their performance and goals achieved, and determine which measures, if any, are still necessary in consistency with the macro fiscal framework; and (ii) approve a system of digital, national identification cards.⁵⁷ The policies to increase the liquidity for businesses are: (i) launch of a Bds\$200 million Tourism Refurbishment Facility;⁵⁸ (ii) evaluate performance of the Business Interruption Benefit; (iii) support economic recovery in the post-pandemic period through: (a) a programme to support SMEs to help boost business continuity in an online environment, and (b) a Draft Industrial Policy completed and approved by Cabinet;⁵⁹ (iv) develop a plan to address capitalisation and structural issues of the NIS; and (v) review the need to extend or terminate the deferment of employers' contributions to the NIS in the post-pandemic period.
- 1.32 **Component 4. Economic and fiscal strengthening for the post-pandemic period.** The objective of this component is to promote economic and fiscal recovery in the post-pandemic period. To achieve this objective, in the first operation in the programmatic series the borrower will implement the following policy measures: (i) appointment of a Jobs and Investment Council to contribute to policy response during and after COVID-19; this will include members of the government, the private sector and the third sector; (ii) Companies (Amendment) (No. 2) Act 2019-51, passed;⁶⁰ (iii) Draft Customs Bill prepared;⁶¹ and (iv) set up a Committee on Doing Business that executes short- and medium-term action to improve doing business performance.
- 1.33 The second operation in the programmatic series will support implementation of the following measures: (i) present a progress report of the measures prioritized by the Jobs and Investment Council, including next steps; (ii) Draft Customs Bill approved; (iii) presentation of a draft of the Fiscal Incentives Bill and amendments to legislation to take measures to: (a) simplify the tariff structure; (b) strengthen tax revenue take; and (c) reduce tax expenditures; (iv) strengthen macro-fiscal management by tabling a legislation for a fiscal rule, which includes an exception clause in the case of natural disasters; and (v) undertake comprehensive tax administration improvements to strengthen the BRA and Customs enforcement capabilities.

⁵⁶ Among other eligibility requirements, employers must maintain 75% of the staff complement, and be registered with the NIS and the Barbados Revenue Authority (BRA).

⁵⁷ The system will improve the traceability of the beneficiaries of social programmes, improving their effectiveness.

⁵⁸ The facility aims to provide working capital and loans to Barbadian hotels.

⁵⁹ Its objective is to improve the competitiveness and financial strength of Barbados' manufacturing sector.

⁶⁰ This Act introduces legislation regarding companies' registration and filing requirements which strengthens Barbados' compliance with the Exchange of Information Request (EOIR) standard.

⁶¹ This bill would provide for a Customs Automated Control System and modernize the customs system.

C. Key results indicators

- 1.34 The expected programme results are included in the Results Matrix (Annex III). The results indicators are: (i) budget allocated to the health sector; (ii) households benefited by the Household Survival programme; (iii) self-employed individuals benefited by the Business Interruption Benefit; (iv) companies benefited by the small business wage fund; and (v) actions prioritised by the government from the recommendations issued by the Jobs and Investment Council for completion by December 2021 that have been implemented.
- 1.35 **Economic analysis.** Based on the recommendations by the Office of Evaluation and Oversight (OVE) in its 2011 Evaluability Review of Bank Projects⁶² and on the findings of the review of evaluation practices and standards for policy-based loans conducted by the Evaluation Cooperation Group (ECG), which comprises the independent evaluation offices of the multilateral development banks),⁶³ as provided for in paragraph 1.3 of document GN-2489-5 (Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations), which indicates that an analysis of efficiency in the use of financial resources is unnecessary,⁶⁴ it was determined that an economic analysis would not be performed for this type of loan, as reported to the Board of Executive Directors. Accordingly, this loan operation does not include an economic analysis and no such analysis is considered for purposes of measuring the evaluability score in the programme's Development Effectiveness Matrix.
- 1.36 **Beneficiaries.** The direct beneficiaries of the first operation in the programmatic series are the citizens of Barbados, particularly those in the most vulnerable sectors, due to the positive social effects of the policy measures intended to increase available resources for responding to the health crisis will support the delivery of better public health services. Additionally, the protection of household income and business liquidity, as well as the measures to reactivate the economy will help reduce the impact of the crisis on the well-being of the country's citizens, particularly low-income individuals. Finally, the Government of Barbados will also benefit from this operation, as it will have more resources available to implement public policies to mitigate the impact of the health and economic crisis.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Financing instrument.** This operation has been structured as a programmatic policy-based loan (PBP) and is the first operation of a programmatic series consisting of two contractually independent but technically linked loans, in line with

⁶² Document RE-397-1: Currently, the economic analysis section is computed as the maximum between the Cost-Benefit Analysis (CBA) and the Cost-Effectiveness Analysis (CEA). Yet neither a CBA nor a CEA is applicable to policy-based loans.

⁶³ Good Practice Standards for the Evaluation of Public Sector Operations. Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012.

⁶⁴ According to the ECG, policy-based loans should be evaluated for relevance, effectiveness, and sustainability. Efficiency was not included as a criterion, since the size of a policy-based loan is related to a country's financing gap, independent of the project's benefits.

the guidelines for the preparation and implementation of programmatic policy-based loans set forth in document CS-3633-2. The programmatic modality was chosen because: (i) it promotes ongoing policy dialogue between the Bank and the country with the aim of providing continuous support during the pandemic and in the post-pandemic period; (ii) given the uncertainty regarding the length and severity of the crisis caused by the pandemic, this instrument leaves room for adaptation to evolving circumstances and monitoring of the programme's scope; and (iii) it facilitates the development, fine-tuning, and implementation of economic and fiscal recovery plans, with a view to resuming growth with equity and fiscal sustainability in the post-pandemic period.

- 2.2 **Dimensioning.** The amount of this operation will be US\$120 million, from the Bank's Ordinary Capital, which represents 29.9% of the total amount that will be financed by multilateral agencies in 2020 to respond to the health and economic crisis caused by COVID-19 in Barbados (§1.22). This amount will be disbursed in one single tranche. The cost of the operation is justified by the public sector's financial needs and has no direct relationship to the cost of the programme's reforms, in accordance with document CS-3633-2 (paragraph 3.27 (b)). Gross public sector financing needs for the country in 2020 are estimated at US\$857.6 million, (18.1% of GDP) for FY2020/2021.

B. Environmental and social risks

- 2.3 Based on guideline B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this programme does not require ex-ante classification of impacts. The operation supports the development of policies, standards, management tools, and other institutional strengthening actions. Therefore, no significant or direct adverse environmental and natural impacts are anticipated.

C. Fiduciary risks

- 2.4 No fiduciary risks associated with the operation have been identified. The operation's proceeds will go directly to the National Treasury to meet the government's financing needs. To that end, the executing agency has the necessary financial management tools and supervision systems. The resources will be disbursed once the policy measures set forth in the loan contract are fulfilled.

D. Other risks and key issues

- 2.5 **Public management and governance risks.** There is a medium risk that government household transfers and business support measures might be difficult to withdraw in the medium term. The Government of Barbados has already taken measures aimed at mitigating this risk by announcing a total cost for each programme, which quantifies and makes transparent the expected amount of the transitory stimulus. There also exists a medium risk associated with the coordination by the Ministry of Finance, Economic Affairs and Investment (MFEI) with other agencies regarding compliance of the policy conditions. The Bank will mitigate the risk by working closely with the MFEI to ensure that all of the means of verification are sent in a timely fashion to the IDB.

- 2.6 **Development risk.** There is a medium risk that the packages of programme-supported measures to respond to the health and economic crisis will only be partially implemented, due to a lack of financial resources. To mitigate this risk, the Bank will coordinate financial support with other multilateral institutions (§1.22).
- 2.7 **Fiscal sustainability risk.** Although the economy of Barbados is expected to start its recovery by the end of 2020, a much more prolonged economic recession than currently anticipated could generate a high fiscal sustainability risk, as the debt trajectory could become unsustainable. To mitigate this risk, the Government of Barbados has updated its fiscal targets to account for the effects of the pandemic on the fiscal accounts. Additionally, the Bank will provide support through a regional TC (ATN/OC-18057-RG) to strengthen fiscal management (§1.21).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower.** The borrower will be the Government of Barbados, which will execute the programme through the MFEI.
- 3.2 **Executing agency.** The executing agency will be the MFEI, which will have technical responsibility for programme execution and agrees to: (i) act, on its own or by means of a designee, as the official liaison with the Bank and submit reports and evidence of fulfilment of the operation's conditions, as well as any other report that the Bank requires, according to the agreed deadlines and terms; (ii) promote actions to achieve the policy objectives defined in the programme; and (iii) collect, record, and submit to the Bank all data, indicators, and metrics that will help the Government of Barbados and the Bank monitor, measure, and evaluate the programme's results.
- 3.3 **Coordination mechanism.** The MFEI will maintain an ongoing dialogue with the Ministry of Health and Wellness, NIS, BRA and Customs, as well as other relevant government agencies implementing the programmes supported by the first and second operations of this programme, in order to ensure the adequate availability of resources and facilitate administrative procedures. The Bank will coordinate online follow up meetings to provide technical support to the country if needed and to monitor the compliance of the policy measures that were included as part of this programmatic series.
- 3.4 **Special contractual condition prior to the first and sole disbursement of the first Programmatic Policy-Based Loan (PBP):** The first and sole disbursement of loan resources will be subject to the borrower's fulfilment of the policy reform conditions in the Policy Matrix (Annex II), the [Policy Letter](#), and any other conditions set forth in the corresponding loan contract.

B. Summary of arrangements for monitoring results

- 3.5 **Monitoring.** Programme monitoring consists of verification of the agreed policy measures ([Monitoring and Evaluation Plan](#)). The executing agency and the Bank will meet regularly to monitor the operation's results and anticipate and resolve

technical difficulties related to the operation's execution. The executing agency will submit to the Bank all information required for measuring the fulfilment of programme targets and will provide timely information on progress toward those targets.

- 3.6 **Evaluation.** The evaluation strategy will consist of: (i) a “before and after” analysis of the outcome and impact indicators performance included in the Results Matrix; (ii) a review of the intervention's theory of change; (iii) a literature review of evidence on the effectiveness of similar interventions in comparable contexts; and (iv) a qualitative evaluation that provides complementary information on how the achieved results can be attributed to the programme. The evaluation's main questions will address whether the policies implemented helped to achieve the programme objectives ([Monitoring and Evaluation Plan](#)). Additionally, a programme completion report will be prepared. Both the ex post evaluation and the programme completion report will be conducted at the end of execution of the programmatic series.

IV. POLICY LETTER

- 4.1 The [Policy Letter](#) reiterates the country government's commitment to the objectives and actions envisaged in the programme. Additionally, the Bank and the Government of Barbados agreed on a Policy Matrix that identifies the policy actions under this operation.

Development Effectiveness Matrix		
Summary		BA-L1050
I. Corporate and Country Priorities		
1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Climate Change and Environmental Sustainability -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Beneficiaries of targeted anti-poverty programs (#) -Beneficiaries of employment support initiatives (#) -Micro / small / medium enterprises financed (#) Countries with strengthened tax and expenditure policy and management (#)	
2. Country Development Objectives		
Country Strategy Results Matrix		
Country Program Results Matrix	GN-2991-3	The intervention is included in the 2020 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		See p. 1.15 to 1.17 of the loan document.
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.6
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		3.6
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		7.0
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		4.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Treasury.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The operation BA-L1050, for US\$ 120,000,000, is part of the Bank's operational response to the COVID-19 Pandemic Programme to Strengthen Public Policy and Fiscal Management in Response to the Health and Economic Crisis Caused By Covid-19. The general objective of the program is to strengthen the efficiency and effectiveness of public policy and fiscal management in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures. The specific objectives are: (i) to promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19; (ii) to strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) to promote economic and fiscal recovery during the post-pandemic period.

The loan proposal presents a solid diagnosis of the problem. The proposed solutions are an appropriate response to the problems identified in the proposal and its contributing factors. The results matrix is consistent with the vertical logic of the project, presenting adequate indicators at the level of outcomes and impacts. The outcome indicators are appropriately defined to measure the achievements of the project's specific objectives. The impact indicators reflect the contribution to the fiscal macroeconomic objectives consistent with the policy matrix of the operation, and with the objective of responding to the health crisis.

The monitoring and evaluation plan proposes a reflective analysis of the outcome and impact indicators included in the result matrix, complemented by a review of the theory of change, and an updated review of international evidence and qualitative studies. The monitoring and evaluation activities will be carried out by the executing agency, the Ministry of Finance, Economic Affairs & Investment of Barbados, in coordination with the Bank.

POLICY MATRIX

Objective: The general objective of the programme is to strengthen the efficiency and effectiveness of public policy and fiscal management in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures. The specific objectives are: (i) to promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19; (ii) to strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) to promote economic and fiscal recovery during the post-pandemic period.

Components / Policy Objectives	Policy Conditions Programmatic Loan I	Status of Fulfilment, Conditions for Programmatic Loan I ¹	Triggers for Programmatic Loan II
Component 1. Macroeconomic stability			
Ensure and maintain a macroeconomic context consistent with the programme objectives as set forth in the policy matrix and the sector policy letter.	1.1 The Government of Barbados ensures and maintains an economic framework consistent with the objectives set forth in the Policy Matrix and the sector Policy Letter.	i. Fulfilled.	1.1 The Government of Barbados ensures and maintains an economic framework consistent with the objectives set forth in the Policy Matrix and the sector Policy Letter.
Component 2. Strengthening public policy and fiscal management to respond to the health crisis caused by COVID-19			
Ensure the timely availability of financial resources to respond to the health crisis caused by COVID-19.	2.1 The Government of Barbados allocates budgetary resources to the health sector in order to implement the following measures: <ul style="list-style-type: none"> i. Approve the increase in the stock of medicines to six months of supplies equivalent to Bds\$7.8 million; ii. Commit Bds\$7.5 million to purchase additional health equipment; and iii. Ensure the completion of adequate isolation facilities at Harrison's Point. 	<ul style="list-style-type: none"> i. Fulfilled (II quarter, 2020). ii. Fulfilled (II quarter, 2020). iii. Fulfilled (II quarter, 2020). 	2.1 The Government of Barbados allocates budgetary resources to the health sector in order to: <ul style="list-style-type: none"> i. Manage the health consequences of COVID-19; ii. Attain the required level of health services to manage and/or suppress future COVID-19 cases; and iii. Realise any potential increases in health personnel at Harrison's Point to support COVID-19 efforts.

¹ This information is merely indicative as of the date of this document. In accordance with document CS-3633-2 (Policy- Based Loans: Guidelines for Preparation and Implementation), compliance with any specified disbursement conditions, including maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank when the borrower makes the corresponding disbursement request and will be reflected in a timely manner in the disbursement eligibility memorandum.

Components / Policy Objectives	Policy Conditions Programmatic Loan I	Status of Fulfilment, Conditions for Programmatic Loan I ¹	Triggers for Programmatic Loan II
Component 3. Strengthening public policy and fiscal management to respond to the economic crisis			
Strengthen the countercyclical effect of public policy through the temporary introduction of measures to protect the income of vulnerable households during the health and economic crisis.	<p>3.1 The Government of Barbados implements the following measures:</p> <ul style="list-style-type: none"> i. Approval of Bds\$20 million household survival programme, which supports a 40% increase in cash transfer benefits in the Welfare Department and expands the number of persons receiving a government transfer; ii. Set up “Adopt Our Families” fund, of private donations combined with public funds to provide cash transfers to vulnerable households; iii. Approval of a creative art stimulus package of Bds\$1 million to support artists and athletes during the pandemic; and iv. Approval of the “Home Ownership Providing Energy” (HOPE) programme to provide credit for households with income of up to Bds\$4,000 per month to build or buy a home. 	<ul style="list-style-type: none"> i. Fulfilled (II quarter, 2020). ii. Fulfilled (II quarter, 2020). iii. Fulfilled (II quarter, 2020). iv. Fulfilled (IV quarter, 2020). 	<p>3.1 The Government of Barbados implements the following measures:</p> <ul style="list-style-type: none"> i. Complete an evaluative report on the implementation of all the programmes listed in 3.1 (i) to (iv) of the First Programmatic Operation to measure their performance and goals achieved, and determine which measures, if any, are still necessary in consistency with the macro fiscal framework; and ii. Approve a system of digital national identification cards.
Strengthen the countercyclical effect of public policy through the temporary introduction of measures to increase liquidity for businesses during the health and economic crisis.	<p>3.2 The Government of Barbados implements the following measures:</p> <ul style="list-style-type: none"> i. Approval of a Business Interruption Benefit for self-employed persons who are registered and compliant with the NIS and impacted by the declaration of the public health emergency; ii. Approval of a Bds\$20 million small business wage fund for SMEs, providing Bds\$500 per month per employee, up to five employees, for two months; and iii. Approval of a deferment of employers’ contributions to the NIS for three months for companies that retain 75% of their workers. 	<ul style="list-style-type: none"> i. Fulfilled (II quarter, 2020). ii. Fulfilled (II quarter, 2020). iii. Fulfilled (II quarter, 2020). 	<p>3.2 The Government of Barbados implements the following measures:</p> <ul style="list-style-type: none"> i. Launch of a Bds\$200 million Tourism Refurbishment Facility; ii. Evaluate performance of the Business Interruption Benefit; iii. Support economic recovery in the post-pandemic period through: <ul style="list-style-type: none"> a. A programme to support SMEs to help boost business continuity in an online environment; and b. A Draft Industrial Policy completed and approved by Cabinet.

Components / Policy Objectives	Policy Conditions Programmatic Loan I	Status of Fulfilment, Conditions for Programmatic Loan I ¹	Triggers for Programmatic Loan II
			<ul style="list-style-type: none"> iv. Develop a plan to address capitalisation and structural issues of the NIS; and v. Review the need to extend of terminate the deferment of employer's contributions to the NIS in the post-pandemic period.
Component 4. Economic and fiscal strengthening for the post-pandemic period			
Promote economic and fiscal recovery in the post-pandemic period.	<p>4.1 The Government of Barbados implements the following measures:</p> <ul style="list-style-type: none"> i. Appointment of a Jobs and Investment Council to contribute to policy response during and after COVID-19. This will include members of the government, the private sector and the third sector; ii. Companies (Amendment) (No. 2) Act 2019-51, passed; iii. Draft Customs Bill prepared; and iv. Set up a Committee on Doing Business to execute short- and medium-term action to improve doing business performance. 	<ul style="list-style-type: none"> i. Fulfilled (II quarter, 2020). ii. Fulfilled (IV quarter, 2020). iii. Fulfilled (III quarter, 2020). iv. Fulfilled (IV quarter, 2020). 	<p>4.1 The Government of Barbados implements the following measures:</p> <ul style="list-style-type: none"> i. Present a progress report of the measures prioritized by the Jobs and Investment Council, including next steps. ii. Draft Customs Bill approved; iii. Presentation of a draft of the Fiscal Incentives Bill and amendments to legislation to take measures to: <ul style="list-style-type: none"> a. Simplify the tariff structure. b. Strengthen tax revenue take. c. Reduce tax expenditures. iv. Strengthen macro-fiscal management by tabling a legislation for a fiscal rule, which includes an exception clause in the case of natural disasters; and v. Undertake comprehensive tax administration improvements to strengthen the Barbados Revenue Authority (BRA) and Customs enforcement capabilities.

RESULTS MATRIX

PROGRAMME OBJECTIVE:	The general objective of the programme is to strengthen the efficiency and effectiveness of public policy and fiscal management in response to the health and economic crisis caused by COVID-19, through the design and implementation of effective and fiscally responsible policy measures. The specific objectives are: (i) to promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19; (ii) to strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis; and (iii) to promote economic and fiscal recovery during the post-pandemic period.
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EXPECTED IMPACT

Indicators	Unit of Measure	Baseline	Baseline Year	Final Target	Final Year	Means of Verification	Comments
Estimated COVID-19 cases	Number	221,943	2020	120,472	2020	WHO reports.	<p>The indicator allows a comparison between the estimated number of cases in 2020 (final target) versus the projected number of cases in a scenario of no government intervention (baseline) simulated with the use of epidemiological models¹.</p> <ul style="list-style-type: none"> Expected cases in unmitigated scenario: 221,943 Expected cases in social distancing scenario: 120,472
Government primary balance	Percentage	1.0	FY2020/21	3.5	FY2021/2022	Official letter of MFEI.	Primary fiscal balance as a percentage of GDP.

¹ The unmitigated scenario corresponds to estimates from an SEIR model with $R_0=2.7$, while the social distancing scenario has been calculated with $R_0=2.4$. Source: SPD/IDB based on Walker et al (2020).

EXPECTED OUTCOMES

Indicators	Unit of Measure	Baseline	Baseline Year	Final Target (2020)	Means of Verification	Comments
SPECIFIC OBJECTIVE 1: Promote the availability and timely execution of public resources to respond to the health crisis caused by COVID-19						
Budget allocated to the health sector	Percentage of GDP (%)	3.4	2018/19	3.9	Official letter from the MFEI, including the approved health sector budgets for 2018 and 2019.	Formula: (Approved health sector budget) / (GDP) Baseline (FY2018/19): Health sector budget ² : BDS\$351.2 million. GDP: BD\$10,235 million. Final target year: FY2019/2020.
SPECIFIC OBJECTIVE 2: Strengthen the countercyclical effect of fiscal policy through the temporary introduction of measures to protect the income of vulnerable households and increase liquidity for businesses during the health and economic crisis						
Households benefited by the Household Survival programme	Percentage (%)	0	2019	11.6	Official letter from the MFEI/PMO.	Formula: (Benefited households) / (Number of households in Barbados) Baseline (2019): Benefited households: 1,600. Number of households under the poverty line in Barbados: 13,825.
Self-employed individuals benefited by the Business Interruption Benefit	Percentage (%)	0	2019	40.5	Official letter from the MFEI/NIS.	Formula: (Benefited self-employed individuals) / (Number of self-employed individuals in Barbados) Baseline (2019): Benefited self-employed individuals: 1,400. Number of self-employed individuals in Barbados: 3,453.
Companies benefited by the small business wage fund	Percentage (%)	0	2019	19.2	Official letter from the MFEI.	Formula: (Benefited companies) / (Number of businesses registered in Barbados) Baseline (2019): Benefited companies: 900. Number of businesses registered in Barbados: 4,692.

² Includes original allocation and total supplementaries.

Indicators	Unit of Measure	Baseline	Baseline Year	Final Target (2020)	Means of Verification	Comments
SPECIFIC OBJECTIVE 3: Promote economic and fiscal recovery during the post-pandemic period						
Actions prioritised by the government from the recommendations issued by the Jobs and Investment Council for completion by December 2021 that have been implemented	Percentage (%)	0	2019	60	Cabinet-approved implementation plan.	Percentage of all actions prioritised in the plan for policy response that have been implemented. Formula: (Actions implemented) / (Total number of actions prioritised in the plan for policy response) Final target year: December 2021.

OUTPUTS

Outputs	Unit of Measure	Baseline	Baseline Year	Final Target (2020)	Means of Verification
Component 2: Strengthening public policy and fiscal management to respond to the health crisis caused by COVID-19					
Supplementary allocation for health sector approved	Cabinet Approval	0	2019	1	Official letter from the MFEI documenting the approval of the government supplementary to expand health sector spending.
Component 3: Strengthening public policy and fiscal management to respond to the economic crisis					
The creation and funding of the Household Survival programme.	Ministerial Approval	0	2019	1	Official letter from the MFEI /PMO documenting the approval of the corresponding government policy.
The creation and funding of the “Adopt our Families” programme.	Ministerial Approval	0	2019	1	Official letter from the MFEI/PMO documenting the approval of the corresponding government policy.
A creative art stimulus package to support artists and athletes during the pandemic.	Ministerial Approval	0	2019	1	Official letter from the MFEI documenting the approval of the corresponding government policy.
The creation and funding of the “Home Ownership Providing Energy” (HOPE)” programme, including energy efficiency and solar power for all homes.	Cabinet Approval	0	2019	1	Official letter from the MFEI/PMO documenting the approval of the corresponding government policy.
The creation and funding of a Business Interruption Benefit for self-employed individuals.	Ministerial Approval	0	2019	1	Official letter from the MFEI documenting the approval of the corresponding government policy.

Outputs	Unit of Measure	Baseline	Baseline Year	Final Target (2020)	Means of Verification
The creation and funding of a small business wage fund for SMEs.	Ministerial Approval	0	2019	1	Official letter from the MFEI documenting the approval of the corresponding government policy.
The deferment of employer's contributions to the NIS for three months for companies that retain 75% of their workers.	Ministerial Approval	0	2019	1	Official letter from the MFEI documenting the approval of the corresponding government policy.
Component 4: Economic and fiscal strengthening for the post-pandemic period					
Jobs and Investment Council, established.	Council established	0	2019	1	Official letter from the MFEI/PMO documenting the establishment of a Jobs and Investment Council.
Companies (Amendment) (No. 2) Act passed.	Amendment	0	2019	1	Official letter from the MFEI documenting the publication of Companies (Amendment) (No. 2) Act, 2019-51 in the Official Gazette..
Draft Customs Bill prepared.	Draft Bill prepared	0	2019	1	Official letter from the MFEI documenting the preparation of the Draft Customs Bill.
Committee on Doing Business to execute short- and medium-term action, established.	Committee established	0	2019	1	Official letter of the MFEI/PMO documenting the establishment of the Committee on Doing Business.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

Barbados. Loan ____/OC-BA to the Government of Barbados. Programme to Strengthen Public Policy and Fiscal Management in Response to the Health and Economic Crisis caused by COVID-19 in Barbados

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Government of Barbados, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Programme to Strengthen Public Policy and Fiscal Management in Response to the Health and Economic Crisis caused by COVID-19 in Barbados. Such financing will be for the amount of up to US\$120,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2020)