

TC ABSTRACT

STRENGTHENING THE INSTITUTIONAL CAPACITY OF THE CENTRAL BANK OF BARBADOS

I. Basic Project Data

▪ Country/Region:	Barbados
▪ TC Name:	Strengthening the institutional capacity of the Central Bank of Barbados
▪ TC Number:	BA-T1032
▪ Team Leader/Members:	María Netto, IFD/CMF, Team Leader, Daniel Fonseca, IFD/CMF, Co-Team Leader; Eduardo Ponce, IFD/CMF; Gloria Lugo, IFD/CMF; and Stephanie Suber, IFD/CMF.
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination.	Operational Support
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	BA-L1034
▪ Reference to Request ¹ : (IDB docs #)	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38820205
▪ Date of TC Abstract:	February 10, 2015
▪ Beneficiary:	Barbados and the Central Bank of Barbados (CBB)
▪ Executing Agency and contact name (Organization or entity responsible for executing the TC Program)	IFD/CMF
▪ IDB Funding Requested:	US\$240,000
▪ Local counterpart funding, if any:	US\$60,000
▪ Disbursement period (which includes execution period):	48 months
▪ Required start date:	January 2015
▪ Types of consultants (firm or individual consultants):	Individual and/or firm consultants
▪ Prepared by Unit:	IFD/CMF
▪ Unit of Disbursement Responsibility:	CMF
▪ Included in Country Strategy (y/n);	N
▪ TC included in CPD (y/n):	Y
▪ GCI-9 Sector Priority:	Supporting development and Institutions for growth

II. Justification and Objective

2.1 Barbados is a small open economy predominantly driven by the services, tourism and distribution sectors. The Barbadian financial system has remained generally stable and well capitalized, with deposit growth outstripping the rise in credit, the commercial banks are holding significant amounts of liquid assets². However, they are not using this excess liquidity to increase lending to the private sector. The commercial banks' high risk perceptions for their customers are one of the main barriers identified for low access to finance, where firms may also lack the necessary guarantees and collateral to obtain credit for investment or working capital³.

¹ A copy of the Letter of Request, Programming/Portfolio Review Mission Aide Memoire or Report requesting the TC should be submitted with the Abstract.

² An excess cash to deposit ratio is on the 4.7 percent level.

³ Financial institutions do not lend to newer or smaller businesses since they associate them with factors that increase financial risk, justifying the lack of bankable projects.

- 2.2 Access to finance has been identified as the single most problematic factor for doing business, and particularly, an obstacle for small and medium enterprises (SME) in Barbados⁴. The inability to broadly use collateral poses a major impediment to financial access for SME. Finance and access to credit have an important link to productivity in Barbados with a financial intermediation that has not yet developed the depth and sophistication that are necessary to facilitate growth for the economy and firms. A general constraint perceived is that the range of assets that can be used as collateral is limited, reducing access to credit except for large companies or wealthy individuals with substantial land holdings, while smaller borrowers are excluded from the system, and the credit chain is shortened with no borrowing against inventories or warehouse receipts.
- 2.3 As a part of the efforts to address these challenges in past years, the Central Bank of Barbados (CBB) has played a “second-tier development bank” role to promote private investment through various guarantee schemes to primarily assist businesses to providing adequate security for domestic credit for commercial banks and financial institutions. However, this role has proven a limited effectiveness to address these challenges due to a constrained technical capacity and a restricted budget to roll out these additional functions alongside with their core functions and mandate as Central Bank and regulator for the financial sector. Moreover, the heterogeneity perceived amongst these products for substituting collateral for a government guarantee, along with the restrained expertise to manage them, have not met the expected demand for them, and have not contributed by securing financing when needed by the businesses⁵.
- 2.4 In this context, the Bank approved Loan BA-L1034 (3389/OC-BA; 3390/CH-BA), with the objective to contribute to increased productivity of Small and Medium Enterprises (SME) by facilitating access to medium- and long term credit for investment projects. During the preparation of this Loan a risk was identified to the effect of the Central Bank of Barbados’ capacity to adapt to the enhanced and flexible features of this particular guarantee instrument. This TC, to be executed by the Bank, is expected to enhance the CBB’s technical capacity, in particular related to a more streamlined operational flow, promotional competencies and greater coordination with relevant player, thus mitigating the risk previously identified.
- 2.5 The TC objectives will be to strengthen the management and internal organization of the CBB and to support the design and implementation of their institutional initiatives to ensure an effective delivery of services⁶. These objectives will be attained by the following activities: (i) improvement of the design, processes and information systems; (ii) improve institutional capacity of CBB for an enhanced management of programs; (iii) private sector engagement. These objectives will serve to promote best practices, a greater participation of the private sector, and a more compelling use of the financial products offered by the CBB to enhance access to finance for SME.

⁴ World Economic Forum’s Global Competitiveness Report on Barbados (2013-14)

⁵ Small economies, like the one in Barbados, find greater benefits when supported by TCs. Even when their GDP per capita incomes could indicate overall prowess in their economies, public institutions remain weak and lacking expertise to effectively consolidate their mandates.

⁶ The operation will contribute to increase productivity of SME by facilitating access to credit. This TC complements the operation by giving support to the CBB to more efficiently manage their guarantee programs.

III. Description of Activities and Outputs

- 3.1 This TC would be implemented through the following activities:
- 3.2 **Component 1: Improvement of the design, processes and information systems to effectively delivery financial products and services.** Under this component, there will be an assessment of the current design of the banking processing and information systems for the current CBB guarantee platform to identify specific processes and information systems to improve the provision of credit guarantees and cover claims. The outputs for this component involve: (i) the implementation of a modern and innovative workflow systems for efficiently processing applications and providing expedited responses and, (ii) a continuous monitoring and risk management system for financial products with electronic and web-based interfaces.
- 3.3 **Component 2: Improvement of the institutional capacity of CBB for an enhanced management of Programs.** Under this component a set of recommendations based on the lessons learned and the adoption of best practices and innovative procedures in the context of the country and the region will be made to enhancing institutional, management and operational capacity of the CBB for the Guarantee Mechanism. This will include support to the CBB to: (i) improve its ability to design financial products and programs and create a stronger network for greater coordination with the local financial institutions and SMEs, as well as with relevant Ministries and government agencies; (ii) improve the management procedures and secretarial services that will support the Committee of the Guarantee.
- 3.4 **Component 3: Private sector engagement.** Under this component, institutional initiatives by the CBB such as the promotion and dissemination of information of the guarantee mechanism to be developed under the IDB operation, will be undertaken through seminars and consultations with financial sector players⁷. An effective strategy for product dissemination including planned events, reports and brochures for financial intermediaries and SMEs will be an output for this TC. The greater participation and inclusion of private sector will help to address key challenges and seize momentum for the successful implementation of the institutional initiatives to create strategic alliances with the private sector, have their inputs and concerns taken into account and give the end-users a broader knowledge to secure and increment the availability of financing products to ensure the sustainability of the institutional initiatives, a new guarantee policy and the correct delivery of the services⁸.
- 3.5 The activities proposed under the technical cooperation would build upon IDB's long track record in working with the Barbados institutions. In particular, it would be aligned with the work of Capital Markets and Financial Institutions Division (IFD/CMF) with the Government

⁷ Commercial banks, non-traditional lenders, licensed financial intermediaries, private sector associations and relevant firms.

⁸ The CBB will stay engaged in an active relationship with the private sectors participants to improve its services and products, and to better assist this process, the CBB will designate a specific Committee or working group within the CBB to play this role in an ongoing basis.

and the CBB to promote access to finance and productive credit for SMEs while delving into expanding the knowledge and expertise of using guarantee products with the local financial institutions. Also, it will support the coordination needed among the Ministry of Finance and Economic Affairs, Central Bank, and the Ministry of Industry, International Business, Commerce and Small Business Development.

- 3.6 The proposed TC is consistent with the GCI-9 as it contributes to the goals of (i) “supporting development in small and vulnerable countries” (such as Barbados); and (ii) institutions for growth / social welfare.

IV. Budget

- 4.1 The total cost of this TC will be US\$300,000. The IADB contribution will be \$240,000 and the rest will be financed (in kind) by the CBB.

Indicative Budget

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
Component 1	Processes and systems	140,000	20,000	160,000
Component 2	Institutional Capacity	50,000	10,000	60,000
Component 3	Dissemination of information	40,000	20,000	60,000
Component 4	Contingencies	10,000	10,000	20,000

V. Executing Agency

- 5.1 The Ministry of Finance and Economic Affairs submitted the formal request of this technical cooperation in May 2014. As requested by the government, the execution could be undertaken by the IDB with the goal of enhancing local institutional capacity while supporting coordination among the official entities involved in the preparation and successful execution of the Guarantee Mechanism.

VI. Project Risks and Issues

- 6.1 This TC could have some potential risks: (i) a delay in the implementation of the changes in the areas involved at the operative level; also (ii) changes in priorities of the CCB over their programs that will reflect a lower commitment of behalf of the upper management.

VII. Environmental and Social Classification

- 7.1 The TC is not expected to generate negative environmental and social impacts. Consequently, it is expected that this project is classified in category C, which means that environmental and social assessments are not necessary. See [Safeguard Policy Filter Report \(SPF\)](#), and [Safeguard Screening Form \(SSF\)](#).