

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **BARBADOS**

### **MODERNIZING BARBADOS' LEGISLATIVE AND REGULATORY FRAMEWORK FOR NON-BANK FINANCIAL SERVICES**

**(BA-T1137)**

### **PROJECT DOCUMENT**

This document was prepared by the project team consisting of: Team Leader: Dohnert De Lascurain, Sylvia Eva (PTI/CTI); Alternate Team Leader: Hall, Michael Anthony (IFD/CMF); Grant, Kayla Sharee (PTI/CTI); Attorney: Becker Seco, Rosario Paz (LEG/SGO); Team Members: Alleyne, Zahra (PTI/CTI); Barrios Bastardo Andreina Del Carmen (PTI/CTI); Charles, Amanda (PTI/CTI); Franklyn Russell Levon (PTI/CTI);

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<b>MODERNIZING BARBADOS' LEGISLATIVE AND REGULATORY FRAMEWORK FOR NON-BANK FINANCIAL SERVICES</b>		
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<b>PROJECT SUMMARY</b>		
Operation Type:	Technical Cooperation	
Sector:	FINANCIAL MARKETS	
Subsector:	FINANCIAL REGULATION AND SUPERVISION	
TC Taxonomy:	Client Support	
Project Number under the Operational Support Taxonomy:	N/A	
Technical Responsible Unit:	PTI/CTI-Competitiveness, Technology, and Innovation Division	
Unit with Disbursement Responsibility (UDR):	PTI/CTI-Competitiveness, Technology, and Innovation Division	
Executing Agency:	Inter-American Development Bank	
<b>PROJECT OBJECTIVE</b>		
To reform and modernize Barbados' legal and regulatory framework for non-bank financial services, particularly related to pensions, insurance, credit unions, and microfinance, and to strengthen the institutional capacity of the Financial Services Commission (FSC) of Barbados to implement and monitor effective risk-based supervision of a modernized legislative and regulatory framework.		
<b>FINANCIAL INFORMATION</b>		
Financing Type	Fund	Amount in US\$
TCN - Nonreimbursable	CCP - Compete Caribbean + Trust Fund	200,000
<b>Total IDB Financing</b>		<b>200,000</b>
<b>Counterpart Financing</b>		<b>30,000</b>
<b>Total Project Budget</b>		<b>230,000</b>
Donors:	N/A	
Disbursement Period:	36 months	
Execution Period:	36 months	
<b>ADDITIONAL FINANCIAL INFORMATION</b>		
N/A		

## I. JUSTIFICATION AND OBJECTIVE

- 1.1 **National Context.** Barbados, as a Small Island Developing State (SIDS), faces structural vulnerabilities that constrain its ability to achieve inclusive and climate-resilient growth. These include limited economies of scale, high exposure to climate-related shocks, and underdeveloped financial markets. The country's non-bank financial sector—comprising credit unions, insurance firms, pension funds, and microfinance institutions—plays a critical role in bridging financing gaps for underserved populations and micro, small, and medium-sized enterprises (MSMEs), who rely on credit unions and microfinance institutions for working capital and risk mitigation. However, the legal and regulatory framework governing these institutions remains fragmented and outdated, limiting their capacity to support innovation, resilience, and inclusive development. The Government of Barbados, through the Financial Services Commission of Barbados (FSC) has acknowledged the need for modern, principles-based regulation to address emerging risks and support financial innovation, including digital assets and climate finance instruments<sup>1</sup>. This Technical Cooperation seeks to address these gaps by modernizing the regulatory framework and strengthening the institutional capacity of the FSC.
- 1.2 **Effect on MSMEs and women-owned firms (WOFs).** MSMEs are the backbone of Caribbean economies, accounting for over 90% of businesses and more than 50% of employment across the region<sup>2</sup>. In Barbados, MSMEs contribute approximately 47.5% of private non-agricultural revenue, yet they face persistent barriers to accessing finance. According to the Compete Caribbean Innovation, Firm Performance & Gender (IFPG) dataset, 72% of firms in Barbados cite access to finance as a major or very severe obstacle, and 76% of WOFs identify finance as a major constraint<sup>3</sup>. These challenges are compounded by the absence of a coherent microfinance and consumer credit framework, which restricts the ability of non-bank financial institutions (NBFIs) to serve underserved segments of the economy. Evidence indicates that women face more hurdles than men in obtaining finance, particularly in less developed financial markets where credit supply is limited. In the Caribbean, women-owned or women-led companies report significantly lower access to credit, receiving only about 20% of short-term credit and 1.3% of medium to long-term loans<sup>4</sup>. This TC directly addresses these issues by creating a more enabling regulatory environment for inclusive finance, with a focus on gender-responsive and climate-smart financial instruments.

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<sup>1</sup> Financial Services Commission of Barbados (FSC). (2024). Annual Report 2023–2024.

<sup>2</sup> Inter-American Development Bank (IDB). (2022). Reflections on Innovation and Productivity as Caribbean Businesses Emerge from the Pandemic. <https://publications.iadb.org/en/caribbean-economics-quarterly-volume-12-issue-1-reflections-innovation-and-productivity-caribbean>

<sup>3</sup> Compete Caribbean Partnership Facility. (2021). Innovation, Firm Performance & Gender (IFPG) Dataset. <https://www.competecaribbean.org/proteqin-ifpg-datasets/>

<sup>4</sup> Beuermann, D., Dohnert, S., Mooney, H., & Sierra, R. (2024). Are We There Yet? The Path Toward Sustainable Private Sector Development in the Caribbean. Compete Caribbean Partnership Facility and Inter-American Development Bank. Retrieved from <https://www.competecaribbean.org/documents/are-we-there-yet-the-path-towards-sustainable-private-sector-development-in-the-caribbean/>

- 1.3 **Climate Resilience.** The importance of this TC is further underscored by Barbados' vulnerability to climate change. SIDS like Barbados experience climate-related losses equivalent to 50–100% of annual GDP, with projections indicating further increases by 2050<sup>5</sup>. Yet, adaptation finance to SIDS remains disproportionately low, accounting for just 0.2% of global climate finance<sup>6</sup>. Strengthening the regulatory framework for non-bank financial institutions, including provisions for climate finance, green insurance products, and gender-lens investing, can help mobilize domestic and international capital toward climate-resilient investments. This aligns with Barbados' broader climate policy reforms under the Resilience and Sustainability Facility (RSF) with the International Monetary Fund (IMF) and its efforts to establish a Blue Green Bank to finance sustainable infrastructure and private sector innovation.
- 1.4 Globally, non-bank financial institutions are increasingly recognized as vital contributors to financial system diversity, innovation, and resilience. NBFIs now account for nearly 50% of financial assets, offering alternative financing channels that are particularly important in times of economic stress<sup>7</sup>. In the Caribbean, NBFIs are better positioned than traditional banks to provide long-term financing and support inclusive development, especially in sectors underserved by commercial banks. However, without a coherent and modern regulatory framework, these institutions cannot fully realize their potential. This TC will help Barbados transition to a principles-based, risk-sensitive regulatory regime that enhances oversight, promotes innovation, and safeguards consumers.
- 1.5 **Complementarity.** This TC complements ongoing efforts by the FSC and the Central Bank of Barbados to strengthen financial sector governance and expand access to finance for MSMEs. By investing in legislative reform, institutional capacity building, and monitoring systems, this TC will create the conditions for a more inclusive, transparent, and resilient financial ecosystem in Barbados. It is not only timely but essential for unlocking private sector potential, empowering women entrepreneurs, and building a climate-smart economy.
- 1.6 This TC adopts a two-pronged approach to address these challenges as it seeks to: (i) modernize the NBFIs legislative and regulatory framework with a focus on insurance, credit unions, pensions and microfinance, all of which are vital for channeling savings, providing risk protection and extending credit to segments of the economy underserved by commercial banks, and (ii) to strengthen the FSC's institutional capacity to more effectively govern, monitor and regulate key non-bank financial products and services to ultimately expand MSME's access to finance, improve consumer confidence and create conditions for channeling investment

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<sup>5</sup> Global Center on Adaptation. (2025). Closing the Finance Gap for the World's Most Climate-Vulnerable Nations. <https://gca.org/critical-need-for-loss-and-damage-fund-to-help-sids-cope-with-climate-change/>

<sup>6</sup> OECD. (2022). SIDS' Access to Green Funds. <https://one.oecd.org/document/DCD%282022%2934/en/pdf>

<sup>7</sup> Financial Stability Board (FSB). (2023). Global Monitoring Report on Non-Bank Financial Intermediation. <https://www.fsb.org/2023/12/global-monitoring-report-on-non-bank-financial-intermediation-2023/>

into climate-resilient and sustainable economic activity aligned with national priorities.

- 1.7 **Request.** The Government of Barbados, through the Ministry of Economic Affairs, has requested support from the IDB for the development and implementation of this TC (see Annex I). The Government has requested that the IDB act as the executing agency for this TC.
- 1.8 **Objective.** To reform and modernize Barbados' legal and regulatory framework for non-bank financial services, particularly related to pensions, insurance, credit unions, and microfinance, and to strengthen the institutional capacity of the FSC to implement and monitor effective risk-based supervision of a modernized legislative and regulatory framework. The expected outcome is a more inclusive, transparent, and resilient financial system that supports private sector development and national climate resilience objectives.
- 1.9 **Strategic Alignment.** The TC is consistent with the IDB Group Institutional Strategy 2024-2030: Transforming for Scale and Impact (CA-631) specifically its objectives of: (i) Reducing Poverty and Inequality, by modernizing Barbados' legal and regulatory framework for non-bank financial services vital for channeling savings, providing risk protection and extending credit to segments of the economy underserved by commercial banks; (ii) Addressing Climate Change, by creating conditions for channeling investment into climate-resilient and sustainable economic activity aligned with national priorities; and (iii) Bolstering Sustainable Growth, by strengthening the FSC's institutional capacity to more effectively govern, monitor and regulate. It is also aligned with the operational focus area of Productive Development and Innovation. The TC will also contribute to results under the ONE Caribbean Framework (GN-3201-2), specifically its priorities of (i) Climate Adaptation, Disaster-Risk Management and Resilience; (ii) Sustainable Development with Private Sector Engagement. The TC objective is aligned with the IDB Barbados Country Strategy 2025-2030 Pillar 1, Further Revitalize the Economy and Promote Inclusive and Sustainable Growth, by focusing on increasing access to finance, particularly for MSMEs. The TC is also aligned with Compete Caribbean Trust Fund Pillar 2, Enhancing Government Capabilities to Support Climate-Smart and Gender-Responsive Businesses, by (i) enhancing institutional frameworks and strengthening public governance through modernizing gender-responsive legislations, regulations, and policies and (ii) building and enhancing institutional capacity by enhancing knowledge and awareness of gender equity, social inclusion and implementing climate-smart actions. The TC objective is also consistent with the Connectivity, Markets and Finance Division Long-Term Financing Sector Framework Document, aligning with the line of action to promote more efficient, more inclusive and more sustainable access to finance, by strengthening the non-bank financial services which stimulate finance for MSMEs, women and diverse groups.

## II. COMPONENTS

- 2.1 **Component I. Legislative Gap Analysis and Drafting (USD\$90,000.00).** This component will finance the engagement of legal and technical experts to conduct

a comprehensive review of the existing legislation governing of NBFIs in Barbados. The activities to be financed include:

- a. To complete a gender-sensitive legislative gap analysis of the FSC's policy positions on insurance, pensions, credit unions and microfinance. This gap analysis report will also contain policy recommendations for these non-bank financial sectors, including gender-sensitive policies.
- b. To prepare a gender-responsive draft legislation for the insurance, pensions, credit unions, and microfinance sectors, benchmarking against international best practices, with emphasis on climate finance, gender-lens investing, and inclusive financial products.
- c. In accordance with the Procurement Plan, an individual consultant will be hired to perform the Legislative Gap Analysis, and a policy recommendation report for the FSC with a focus on four non-bank financial sectors (insurance, pensions, credit unions and microfinance). Additionally, an individual consultant will be hired to develop a gender-sensitive legal and regulatory instruments that support the modernization of the non-bank financial sectors, specifically legislative drafting instructions and draft legislation, supervisory guidelines and sample regulations, and practical tool kits and templates to assist the FSC and regulated entities in applying the new frameworks.
- d. The expected outputs include a legislative gap analysis and policy recommendations report, four draft legislative instruments, and two supervisory toolkits and guidelines, including sample policies, training guides and reporting templates.

**2.2 Component II. Capacity Building and ESG-Aligned Workflow Optimization (USD\$40,000).** This component will finance the operationalization of the modernized legislative and regulatory framework, focusing on building technical capacity at the FSC as the regulator of NBFIs, and at NBFIs to raise awareness of how to implement the updated legislation. The activities to be financed include:

- a. To complete workflow optimization and process re-engineering within the FSC for regulation and supervision for all non-bank financial sectors, including virtual assets, securities, insurance, pensions, credit unions and microfinance, aligned with the modernized legal and regulatory framework. These optimized workflows will integrate environmental, social and governance (ESG) principles and will include climate-smart, gender-responsive processes.
- b. To train FSC staff and representatives from regulated entities to increase their capacity to implement and utilize the modernized legal and regulatory framework. This will include the preparation of a manual detailing Standard Operating Procedures (SOPs) for FSC operations.
- c. To develop a communications strategy to inform and engage external stakeholders about the modernized regulatory framework. This will include

a stakeholder mapping and needs assessment to identify key audiences, communication gaps and data needs, based on which a gender-sensitive communications strategy tailored to the FSC's reform agenda will be developed.

- d. In accordance with the Procurement Plan, a firm will be contracted for Process Optimization and ESG Integration. Specifically, they will: (i) re-engineer the FSC's internal workflows and supervisory processes optimized to align with international standards and integrating ESG considerations to create climate-resilient, gender-sensitive workflows and processes; (ii) build the capacity of FSC staff and NBFIs representatives to implement the modernized regulatory framework through structured training and the development of a practical SOP manual, and (iii) deliver a strategic communications, outreach and stakeholder engagement plan.
- e. The expected outputs include optimized FSC workflows and process maps, training delivered to at least 30 FSC staff and NBFIs representatives (with sex-disaggregated reporting), a communications strategy and outreach materials to raise awareness of the reforms and their implications for financial inclusion and consumer protection.

2.3 **Component III. Monitoring and Evaluation and Data Capacity Building (USD\$70,000).** This component will finance the enhancement of FSC's capacity to monitor and evaluate the implementation and impact of the modernized regulatory frameworks. The activities to be financed include:

- a. To develop a climate-smart, gender-responsive monitoring and evaluation (M&E) framework, indicator matrix and implementation plan for the FSC to monitor the impact of the modernized legal and regulatory framework on the regulated entities and the private sector. Training sessions will be delivered to FSC staff, focusing on how to use the M&E tool.
- b. To train FSC staff in data collection, processing and reporting, and to develop reporting templates and training materials to build FSC's internal capacity for data collection and analysis.
- c. In accordance with the Procurement Plan with the Procurement Plan, a firm will be contracted to support the FSC in implementing a climate-smart, gender-responsive monitoring and evaluation framework and tools, a data training toolkit.
- d. The expected output will include an M&E strategy and framework adopted by the FSC, with indicators including gender-responsive and climate resilience metrics, and a training delivered to at least 10 FSC staff members.

2.4 **Expected Results:** (i) an improved legislative coherence and modernization of the regulatory framework for NBFIs in Barbados to enable more effective oversight and innovation; (ii) strengthened institutional capacity of the FSC to implement risk-based supervision and regulatory management; and (iii) improved conditions for mobilizing investment into climate-resilient and sustainable economic activities.

- 2.5 **Beneficiaries.** Direct beneficiaries include at least 30 members of the FSC staff. The FSC capacity as the regulator of the NBFIs in Barbados will be strengthened as well as the modernization and improvements to the legislative and regulatory framework which governs the non-bank financial sector. The indirect beneficiaries will be the MSMEs and private sector in Barbados, who will benefit from a modernized legislative and regulatory framework designed to support innovative financial products and services.

### III. BUDGET

- 3.1 **Budget.** The indicative budget of the TC will be USD\$200,000.00, that will be entirely financed by the Compete Caribbean Trust Fund (CCP). Counterpart contribution will be in-kind. The TC budget is presented on the following table.

Components	IDB	Counterpart (In-Kind)	Sub-Total
Component 1: Legislative Gap Analysis and Legal Drafting	90,000	15,000	<b>105,000</b>
Component 2: Capacity Building and ESG-Aligned Workflow Optimization	40,000	5,000	<b>45,000</b>
Component 3: M&E and Data Capacity Building	70,000	10,000	<b>80,000</b>
<b>Total (US\$)</b>	200,000	30,000	<b>230,000</b>

### IV. EXECUTION STRUCTURE

- 4.1 **Executing Agency.** The TC will be executed by the Inter-American Development Bank (IDB), based on a request by the Government of Barbados. The Bank will execute this TC through PTI/CTI in coordination with Compete Caribbean+ (CC+) and the FSC. The Bank will execute this TC due to the following reasons: (i) previous experience and knowledge on the part of the IDB in implementing project(s) similar to this proposed operation; and (ii) limited institutional capacity of the beneficiary institution in Barbados. These justifications are in accordance with the Bank's Technical Cooperation Policy (GN-2470-2) and the Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4), through the Unit of PTI/CTI.
- 4.2 **Execution Justification.** This execution mechanism is justified by the Bank's experience with the preparation and development of the operational and technical instruments proposed. The TC will be executed by the Bank through the hiring of consultants to carry out each activity. In this sense, the Bank will be responsible for: (i) identifying the technical work necessary to structure the project; (ii) select and hire consultants to provide the necessary services; and (iii) manage the

execution and delivery of consulting services. The activities will be carried out in coordination with the Beneficiary.

- 4.3 The counterpart of this TC will be led by the FSC, which will oversee stakeholder coordination, alignment with national priorities, and alignment with the broader Legislative Reform Plan for the non-bank financial sector which is being undertaken by the Government of Barbados. Key roles that will be provided by the FSC include a Project Manager/Focal Point (timelines and budgets) and Legal Advisor (legislative reforms). The FSC will provide technical oversight and co-financing in-kind through staff and office resources. Agencies in Barbados, such as the Office of the Chief Parliamentary Counsel, will contribute specific technical expertise.
- 4.4 **Procurement.** All procurement to be executed under this TC have been included in the Procurement Plan (Annex IV) and will be hired in compliance with the applicable Bank policies and regulations as follows: (a) Hiring of individual consultants, as established in the regulation on Complementary Workforce (AM-650) and (b) Contracting of services provided by consulting firms in accordance with the Corporate procurement Policy (GN-2303-33) and its Guidelines.
- 4.5 **Execution and Disbursement Period.** The execution and disbursement period will be 36 months.
- 4.6 **Monitoring, Reporting, and Supervision.** This TC will be monitored and supervised by the Team Leader assigned by PTI/CTI. The Team Leader will coordinate with the CC+ FCU and the Government of Barbados, FSC and other relevant stakeholders in the execution of consultancy services outlined in the procurement plan and conduct monthly meetings to identify problems or potential risk, provide feedback and ensure alignment with the broader goals of the TC.

## V. POTENTIAL RISKS

- 5.1 **Operational Risks.** The limited institutional capacity of FSC to implement the proposed initiatives under Component 2 is a risk which may impact on the success of the TC. To address the risk, the FSC will designate a focal point with dedicated time to oversee TC implementation, detailed by a formal letter of commitment from senior leadership. The IDB team will also be providing the FSC with capacity building to support the implementation of the modernized legislative and regulatory frameworks. This will be supported by a robust, participatory communications and changing management strategy to ensure knowledge and ability to sustain reforms beyond the life of the project.
- 5.2 **Implementation Risk.** Cabinet or Ministry approval of draft legislation and regulations may be a bottleneck, posing a risk of delays to the enactment of reforms. To mitigate this risk, the FSC will be encouraged to engage decision-makers early and consistently, scheduling the submission of legislative proposals within the first half of the implementation period to allow for contingency time. Regular briefings will be provided to policymakers to maintain high-level buy-in, and reforms will be explicitly framed as contributing to national priorities such as

investment promotion, job creation, financial inclusion, and climate resilience, thereby strengthening the case for timely approval.

- 5.3 **Intellectual Property.** Any knowledge products generated within the framework of this technical cooperation will be the property of the Bank and may be made available to the public under a Creative Commons license. However, upon request of the beneficiary, the intellectual property of said products may also be licensed and/or transferred to the beneficiary through specific agreements.

## **VI. EXCEPTIONS TO BANK POLICIES**

- 6.1 An exception to the GN-2303-33 policies has been granted by the Board of Executive Directors for projects financed by CC+ (GN-2851-2), so that procurement from non-IDB member countries may be eligible in the procurement processes for activities to be financed from the Facility, provided that the country of origin or nationality of such providers is recognized by the donors of the Facility as eligible.

## **VII. ENVIRONMENTAL AND SOCIAL ASPECTS**

- 7.1 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).

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### **REQUIRED ANNEXES:**

- [Annex I: Request from Client](#)
  - [Annex II: Results Matrix](#)
  - [Annex III: Terms of Reference](#)
  - [Annex IV: Procurement Plan](#)
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