



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 02-Dec-2020 | Report No: PIDC30687



**BASIC INFORMATION**

**A. Basic Project Data**

Country Barbados	Project ID P175492	Project Name Barbados COVID-19 Response and Recovery DPF (P175492)	Parent Project ID (if any)
Region LATIN AMERICA AND CARIBBEAN	Estimated Board Date Mar 15, 2021	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) MINISTRY OF FINANCE, ECONOMIC AFFAIRS AND INVESTMENT (MFEI)	Implementing Agency MINISTRY OF FINANCE, ECONOMIC AFFAIRS AND INVESTMENT (MFEI)		

**Proposed Development Objective(s)**

The development objective of this operation is to support Barbados’ response to the COVID-19 crisis and to promote the post-crisis economic recovery.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	100.00
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**DETAILS**

<b>Total World Bank Group Financing</b>	100.00
World Bank Lending	100.00

**Decision**

The review did authorize the preparation to continue

**B. Introduction and Context**

Country Context

1. **Barbados is a small island state that has seen significant economic growth since IBRD graduation in 1984, but faces challenging macroeconomic, fiscal, and vulnerability conditions.** The country has a population of 287,000 and had a per capita gross national income of US\$17,380 in 2019. Barbados has achieved nearly 30 years of solid economic growth,



despite recessions in 1990-93, 2001, and 2009, as illustrated by the notable rise in GNI per capita<sup>1</sup> - from US\$5,910 in 1986 to US\$16,1810 in 2008. Economic growth led to an improvement in other indicators, such as life expectancy, which increased from 73.3 in 1984 to 79.1 in 2018. However, the country's economic position remains vulnerable due to its small size, heavy dependence on tourism at 17 percent of GDP, and exposure to potential shocks, such as natural disasters and climate risk. In addition, Barbados has faced a challenging fiscal and economic environment since the 2008 financial crisis. GNI per capita fell to US\$15,050 by 2011 and since then Barbados has had a slower and more varied growth trajectory with GDP growth averaging about 0.3 percent between 2012 and 2019. The debt-to-GDP ratio has risen from 71.2 percent in 2008 to 122.2 percent in 2019. Since 2018, Barbados has been proactively working with international partners, including the International Monetary Fund, to improve its fiscal position, developing and implementing a strong fiscal program that includes restructuring of domestic and external debt and enhancing debt transparency and overall debt sustainability. However, the debt risks have been exacerbated by the 2020 economic downturn.

**2. Barbados has managed the pandemic outbreak well, with a rapid response to COVID-19 that has limited the number of infections and deaths, but the pandemic has significantly impacted the economy.** As of December 1, 2020, Barbados had recorded a total of 278 confirmed cases of COVID-19 – 97 per 100,000 residents - and seven deaths – 2.4 per 100,000 residents.<sup>2</sup> However, COVID-19 presents a severe shock to tourism-dependent small island states like Barbados. The disruptions in international trade and travel, local containment measures, as well as the global recession, have dramatically halted the tourism sector and adversely affected domestic production, as business activity has been reduced in an effort to contain spread of the disease. While Grantley Adams International Airport reopened to commercial flights in July 2020, Barbados continues to implement various international travel restrictions. Regionally, Caribbean countries recorded a 50 percent decline in visitor arrivals in the first six months of 2020. With more than 60 percent of typical inbound visitors coming from the UK and the US, Barbados is highly exposed to this downturn.<sup>3</sup> This decline follows a 9.7 percent increase in tourism economic activity in 2019 over 2018, which had been bolstering overall economic growth in Barbados. Domestically, officials lifted most COVID-19 restrictions, and manufacturing and construction activity have resumed, while most commercial businesses have reopened with capacity limits.

**3. The decline in GDP growth in 2020 is expected to reduce employment and increase poverty.** The fallout in the tourism sector and disruptions to local production are expected to depress growth<sup>4</sup>, resulting in a third consecutive year of recession. The still high level of public debt limits space for counter-cyclical fiscal policy measures to lift growth and reduce poverty. Middle-income households (those that earn between 1 and 4 times the minimum wage<sup>5</sup>) are so far the most affected by the economic shock, accounting for half of the reported job losses and one-third of the reported business closures. Unemployment claims so far in 2020 reached roughly one-third of the workforce. Poverty can be expected to decrease over the medium term provided the recovery is sustained and associated with the creation of new job opportunities. A further deepening and prolongation of the COVID-19 crisis is the main risk.

#### Relationship to CPF

**4. As an IBRD graduate, Barbados does not have a Country Partnership Framework with the World Bank. The proposed DPF would support the Government's COVID-19 response and recovery in line with the World Bank's**

<sup>1</sup> GNI per capita, Atlas method (current US\$) – Barbados, World Bank national accounts data, and OECD National Accounts data files.

<https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=BB> ; life expectancy -

<https://data.worldbank.org/indicator/SP.DYN.LE00.IN?locations=BB>

<sup>2</sup> Johns Hopkins University. COVID-19 Dashboard by the Center for Systems Science and Engineering (CSSE). <https://coronavirus.jhu.edu/map.html>

<sup>3</sup> World Travel and Tourism Council (WTTTC) - <https://wttc.org/Research/Economic-Impact>

<sup>4</sup> During the first three quarters of 2020 GDP declined by about 16 percent compared to the same period of 2019.

<sup>5</sup> Minimum wage in Barbados is B\$6.25 (US\$3.13) per hour



**approach to providing support to countries as they tackle the unprecedented threats posed by the COVID-19 crisis,** consistent with the “Saving Lives, Scaling-up Impact and Getting Back on Track: World Bank Group COVID-19 Crisis Response Approach Paper” (June 2020).<sup>6</sup> To that end, it aims at saving lives threatened by the pandemic; protecting the poor and vulnerable; securing foundations of the economy; and strengthening policies and institutions for resilience based on transparent, sustainable debt and investments. The operation also aims to support the government’s efforts to tackle poverty exacerbated by the crisis and promote shared prosperity and inclusion during the recovery. The proposed operation is aligned with the Bank’s climate change policy commitments and would support the country’s overall resilience to climate, health, and economic shocks.

5. **The operation would constitute exceptional IBRD financing given that Barbados is an IBRD graduate.** Barbados has made significant improvements in macroeconomic management since 2018. However, given the devastating impact of the pandemic on this tourism-based small island economy, and the lack of access to market financing on reasonable terms, there is a financing gap. Complementing support from the IMF and other official creditors, exceptional access to IBRD financing would help Barbados to partially cover its financing needs in FY2021 and to support the country’s return to market-based financing over the medium term.

### C. Proposed Development Objective(s)

6. The development objective of this operation is to support Barbados’ response to the COVID-19 crisis and to promote the post-crisis economic recovery.

7. The operation supports prior actions under three pillars: (i) Pillar A - Strengthening the economic response to COVID-19; (ii) Pillar B - Improving fiscal management, transparency, and business environment; and (iii) Pillar C - Enhancing resilience to disasters.

#### Key Results

This operation is expected to (a) strengthen the economic response to COVID-19; (b) improve fiscal management, transparency, and the business environment; and (c) enhance Barbados’ resilience to disasters. Key results include expanding access to social program benefits to workers affected by COVID-19; enhancing the sustainability and investment in tourism and small and medium sized enterprises; promoting energy efficiency and targeted homeownership; improving the efficiency and transparency of payments systems; enhancing customs revenue collection and trade facilitation; increased transparency of fiscal reforms; developing and implementing a COVID-19 vaccination campaign; improving the disaster resilience of the insurance industry; and increasing access, sustainability and transparency of the Catastrophe Fund for individuals and businesses affected by shocks.

### D. Concept Description

8. **This operation aims to support the Government in responding to the COVID-19 pandemic and in creating the conditions for the country’s economic recovery.** The operation supports prior actions under three pillars: (i) Pillar A - Strengthening the economic response to COVID-19; (ii) Pillar B - Improving fiscal management, transparency, and business environment; and (iii) Pillar C - Enhancing resilience to disasters. The development objective of this operation is to support Barbados’ response to the COVID-19 crisis and to promote the post-crisis economic recovery.

<sup>6</sup> <http://documents1.worldbank.org/curated/en/136631594937150795/pdf/World-Bank-Group-COVID-19-Crisis-Response-Approach-Paper-Saving-Lives-Scaling-up-Impact-and-Getting-Back-on-Track.pdf>



9. Under Pillar A, “Strengthening the economic response to COVID-19”, the operation supports policies related to: (i) support the tourism sector; (ii) support homeownership for low- and middle-income households; and (iii) provide loans to small businesses.

10. Under Pillar B, “Improving fiscal management, transparency, and business environment”, the operation supports policies and institutional changes related to: (i) public debt transparency; (ii) payment system development; and (iii) customs regulations.

11. Under Pillar C, “Enhancing resilience to disasters” the operation supports: (i) Barbados’ COVID-19 vaccination strategy; (ii) regulation and supervision of the insurance industry’s disaster risk exposure and vulnerability; and (iii) the Government’s disaster risk financing and resilience policies.

### **E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects**

#### Poverty and Social Impacts

The operation’s prior actions related to mitigation of the COVID-19 crisis are expected to have immediate positive social impacts and to contribute to poverty alleviation in the short run. The prior actions aimed at promoting and facilitating resilient recovery are expected to have similar impacts in the medium term.

#### Environmental, Forests, and Other Natural Resource Aspects

The proposed operation is not expected to have any significant negative impacts, and may have positive impacts, on Barbados’ environment, forests, and natural resources. The support to the country’s economic recovery and to vulnerable communities will increase the country’s resilience to climate-related risks, which have been and could be further compounded by the COVID-19 pandemic. The operation’s prior actions related to supporting a green economic response and recovery and improving Barbados’ disaster resilience are expected to have a positive impact in reducing carbon emissions and in improving the economy’s resilience to climate change.

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#### **Implementing Agencies**



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**APPROVAL**

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