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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

CARIBBEAN REGIONAL

PROJECT PAPER

ECONOMIC RECOVERY AND PRIVATE SECTOR
SUPPORT PROGRAM

AID/LAC/P-126

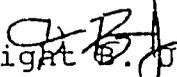
Loan Number: 538-K-022
Project Number: 538-0100

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9/30/75 (TM 4:1)

CLASSIFICATION:

Att 1 to App 3B, Ch 3, HB 4

AID 1120-1 (B-661) PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. 538-0100 538-K-022
		2. COUNTRY Barbados
		3. CATEGORY Cash Transfer
		4. DATE January 12, 1983
5. TO: Otto J. Reich, AA/LAC		6. OYS CHANGE NO.
7. FROM:  Dwight B. Johnson, LAC/DR		8. OYS INCREASE TO BE TAKEN FROM: Economic Support Funds (ESF)
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 7,000,000		10. APPROPRIATION - ALLOTMENT
11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD FY 1983
14. TRANSACTION ELIGIBILITY DATE		14. TRANSACTION ELIGIBILITY DATE
15. COMMODITIES FINANCED		

16. PERMITTED SOURCE U.S. only \$7,000,000 Limited F.W.: Free World: Cash:	17. ESTIMATED SOURCE U.S.: \$7,000,000 Industrialized Countries: Local: Other:
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18. SUMMARY DESCRIPTION

The loan proposes to assist the GOB in carrying out its economic adjustment program by (a) providing \$7 million in foreign exchange to relieve its balance of payments, (b) stimulating the productive sectors through approximately \$3.5 million in local currency credit, and (c) providing approximately \$3.5 million in local cost financing for essential infrastructure projects. Besides standard conditions precedent to disbursement, involving a legal opinion and Borrower representatives, the GOB will agree to a number of covenants which will be included in the loan agreement, including principally: (1) the establishment of a special account in the Central Bank to which it will deposit local currency funding, (2) causing to be imported goods and services from the United States of an amount at least equal to \$7 million, and (3) agreement by the GOB that the use of A.I.D. assistance will be in a manner which will not cause injury or the threat thereof to the production, marketing, or pricing of U.S. agricultural commodities.. In addition, a general covenant will be included in the agreement requiring the GOB to use assistance provided, including local currency allocated by the GOB, in accordance with criteria agreed upon in writing.

19. CLEARANCES REG/DF LAC/DR CH Leonard <i>OK</i> 1/12/83 REG/G LAC/DP DRIbe <i>OK</i> 1/15/83 AA PC LAC/CAR J Francis <i>OK</i> 1/14 A CON GC/LAC R Meighan <i>OK</i> 1/14 AA MR AFA/ECP J Demlow <i>OK</i> 1/14 AA DE PPC/PB H Andrade <i>OK</i> 1/14 AA PM W McKeel <i>OK</i> 1/14 LAC/DR: I Levy <i>OK</i>	20. ACTION <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED  AUTHORIZED SIGNATURE DATE Jun 20, 1983 Assistant Administrator for LAC TITLE
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CLASSIFICATION:

The loan will have a 20 year repayment period with five years grace at an interest rate of 5 percent.

PROGRAM ASSISTANCE APPROVAL DOCUMENT

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ECONOMIC RECOVERY AND PRIVATE SECTOR SUPPORT PROGRAM

I. SUMMARY AND RECOMMENDATIONS

A. Recommendation

AID's Regional Development Office/Caribbean recommends the authorization of a \$7 million Economic Support Funds Loan. The dollar loan will be repaid in 20 years, including a 10 year grace period. The interest rate will be 5% during the grace period and 3% thereafter.

B. Borrower

The Borrower will be the Government of Barbados, acting through the Ministry of Finance and Planning. The Central Bank of Barbados (CBB) will act as an agent of the government for receiving and disbursing funds.

C. Program Summary

Barbados has long served as a model of responsible and pragmatic economic development in the Eastern Caribbean. Until recently, its sound economic management had established a record of growth matched by few other developing countries. However, the adverse effects of the world-wide recession have placed the country in serious economic difficulty, with the decline in the productive sectors of manufacturing, sugar and tourism being especially sharp. With a population of only 251,000, Barbados' projected current account deficit for 1982 will be \$93 million, and \$80 million in 1983. The combined 1982/83 unfinanced gap in the balance of payments is expected to be \$12.5 million, necessary efforts by the Government to cope with the situation have contributed to a decline in real growth, a development which has, in turn, caused high unemployment. Barbados is now supported by an IMF Standby arrangement and has adopted a stringent adjustment program.

The country needs and merits assistance to help alleviate its monetary and fiscal constraints, facilitate the adjustment necessary for a successful recovery program, stimulate production and promote recovery of its economy. Without such assistance, it would be particularly difficult for Barbados to take advantage of the export and trade opportunities of the Caribbean Basin Initiative and could erode the political stability of this progressive and friendly nation.

The objectives of the proposed economic support program, therefore, are to:

- stem the deterioration of the balance of payments;
- stimulate a recovery of the productive sectors; and
- provide local cost financing for essential infrastructure projects.

The proposed \$7.0 million program will take the form of an immediate cash transfer to the Government of Barbados and, through it to the Central Bank of Barbados (CBB). The equivalent of \$3.5 million in local currency will be channelled by the CBB to the commercial banking system for on-lending to private enterprises in the productive sectors. An additional \$3.5 million will be used by the government

of Barbados to generate its counterpart contribution for externally-funded infrastructure projects.

The CBB will use \$3.5 million for loans to firms in the productive sectors, especially manufacturing, with emphasis on credit for export-related production. The loans to the productive sectors will be made at market rates of interest, while the rediscount rates charged the banks by the CBB will be sufficiently attractive to insure that the banks make use of the funds. All the island's commercial banks will be eligible for participation in the program.

The government will use \$3.5 million for local cost financing of priority infrastructure projects being carried out under agreements with other international donors. Without these funds, the government would not be able to proceed with its vital public sector investment program, which, as a result of the current severe economic problem, has been severely curtailed.

The program will promote U.S. exports to the country. The U.S. is Barbados' most important trading partner, with a substantial portion of Barbadian imports coming from the U.S.

D. Conditions and Covenants

1. Conditions Precedent to Initial Disbursement

Prior to the first disbursement under this loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

-- An opinion from the Attorney General of the Borrower stating that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms.

-- A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Borrower together with a specimen signature of each person certified as to its authenticity.

-- Evidence that that the Government of Barbados is in full satisfaction of the requirements established by the International Monetary Fund (IMF) and are eligible to draw under the IMF standby agreement.

2. Covenants

The Borrower will import from the U.S. goods equivalent to the value of this cash transfer. In addition the borrower covenants that in using dollar funds or local currency resources under this Agreement, the borrower will avoid projects or activities which would cause or threaten serious injury to the production, marketing, or pricing of United States agricultural commodities or products. Exports of agricultural commodities or products should not be supported using such funds, if the issue of serious harm or threat thereof from such exports has been raised by USAID, until the matter has been reviewed and discussed by USAID and the borrower. Both USAID and the borrower should keep each other informed of activities which appear to involve the potential for such harm.

II. ANALYSIS OF ECONOMIC CONDITIONS

Background and Overview

The Barbados economy has suffered severe reverses in 1981 and 1982 after a decade of strong, export-led growth. During the period 1976-1980, real GDP measured at factor prices grew by an average of 5.3 percent per year. Table 1 parts (a), (b) and (c) summarizes the changing sectoral patterns in the composition of output and their contributions to growth during this period.

It will be seen that during this period, Barbados very successfully exploited opportunities for expansion of merchandise and service exports. The manufacturing sector as a whole grew by 6.1 percent per year from 1976 through 1980. A substantial portion of this increase in manufactured output was in export manufacture primarily in foreign enclave operations aggressively promoted by the GOB. During this period exports of manufactured goods increased by an average of 29.7 percent per year, measured at current prices during a period when the GDP deflator showed an 11.4 percent annual increase.

The second major source of growth during this period was tourism which grew at an annual rate of 17.7 percent and accounted for 13.8 percent of total output by 1980. Growth in this sector, while strong overall was subject to sharp year-to-year fluctuations.

Output of the agricultural sector (including sugar) was relatively stagnant overall during this period but also was subject to sharp year to year fluctuations in both sugar and in other agricultural commodities. In fact, Table 1 gives a slightly misleading picture of the overall state of the agricultural sector since 1980 was a cyclical price peak for sugar. Nonetheless, the sugar sector showed a healthy 6.2 percent per year increase in real output over this period.

Beginning in 1981, the Barbados economy suffered a number of severe external shocks. The U.S. recession reduced demand for manufactured products (except for electronics equipment). Overall, value added in manufacturing declined by 9.4 percent in 1981. Tourist arrivals declined by 5 percent and stagnant prices reduced real value added in the tourist sector by 9.1 percent. World sugar prices, from which Barbados is only partially insulated by the Lome Agreement and the U.S. quota, tumbled and rainy weather produced a 35 percent drop in sugar production. Overall, real GDP fell by 2.6 percent in 1981.

During 1982, the performance of the Barbadian economy has continued to decline as adverse external circumstances have persisted. Tourist arrivals were down by 12.5 percent for the first nine months of 1982. Compounding the effect of the continuing world recession has been the appreciation of the Barbadian dollar (which is linked to the U.S. dollar) relative to the Canadian dollar and the pound sterling. While tourist arrivals from the U.S. were down one percent in 1982 from the corresponding period in 1981, arrivals from Canada dropped 9 percent, and those from the U.K., 29 percent.

Output of the manufacturing sector continued to decline despite a 40 percent increase in electronic component export and a 22 percent growth of clothing exports. Overall, real GDP is projected to decline by approximately 5 percent during 1982.

TABLE 1 (a)

BARBADOS - SECTORAL ORIGIN OF GROSS DOMESTIC PRODUCT
AT CONSTANT PRICES, 1976-81

(1974 BDS\$ Million)

	1976	1977	1978	1979	1980	Preliminary 1981
Sugar	43.8	51.1	43.0	48.5	57.6	40.0
Other Agriculture and Fishing	27.1	21.3	29.4	29.8	25.0	25.0
Mining & Quarrying	1.3	1.1	1.6	1.6	2.0	2.0
Manufacturing	81.0	79.5	81.4	89.9	102.6	93.0
Electricity & Water	10.8	12.3	14.2	15.8	16.8	17.0
Construction	49.9	43.1	46.3	52.7	56.4	59.0
Wholesale & Retail Trade	122.2	124.6	129.5	142.0	156.7	160.0
Tourism	57.9	77.1	86.3	107.0	111.1	101.0
Transport Storage & Communications	44.4	45.5	46.6	48.3	49.7	51.0
Business & General Services	118.3	121.3	123.0	126.1	128.1	129.0
Government Services	<u>97.1</u>	<u>97.1</u>	<u>99.5</u>	<u>102.0</u>	<u>102.0</u>	<u>106.0</u>
<u>GDP at Constant Factor Prices</u>	653.9	678.0	710.5	766.7	803.8	783.0
Real Growth	4.3	3.7	4.8	7.9	4.9	-2.6
GDP Deflator (1976=100)	120.5	131.3	138.6	156.2	185.3	210.3

Sources: Barbados Statistical Service, Central Bank

TABLE 1 (b)

COMPOSITION OF OUTPUT
(% of GDP)

	1976	1977	1978	1979	1980	Preliminary 1981
Sugar	6.7	7.5	6.1	6.3	7.2	5.1
Other Agriculture & Fishing	4.1	3.1	4.1	3.9	3.1	3.2
Mining & Quarrying	0.2	0.2	0.2	0.2	0.2	0.3
Manufacturing	12.4	11.7	11.5	11.7	12.8	11.9
Electricity & Water	1.7	1.8	2.0	2.1	2.1	2.2
Construction	7.6	6.4	6.5	6.9	7.0	7.5
Wholesale & Retail Trade	18.7	18.4	18.2	18.5	19.5	20.4
Tourism	8.9	11.4	12.1	14.0	13.8	12.9
Transport Storage & Communications	6.8	6.7	6.6	6.3	6.2	6.5
Business & General Services	18.1	17.9	17.3	16.4	15.9	16.5
Government Services	<u>14.8</u>	<u>14.3</u>	<u>14.0</u>	<u>13.3</u>	<u>12.7</u>	<u>13.5</u>
<u>GDP At Factor Prices</u>	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Barbados Statistical Service, Central Bank

TABLE 1 (c)

CHANGE IN REAL OUTPUT BY SECTOR

(% change measured at factor cost)

	1977	1978	1979	1980	Preliminary 1981
Sugar	16.7%	-15.9%	12.8%	18.8%	-30.6%
Other Agriculture & Fisheries	-21.4	38.0	1.4	-16.1	0.0
Mining & Quarrying	-15.4	45.5	0.0	25.0	0.0
Manufacturing	-1.9	2.4	10.4	14.1	-9.4
Electricity & Works	13.9	15.4	11.3	6.3	1.2
Construction	-13.6	7.4	13.8	7.0	4.6
Wholesale & Retail Trade	2.0	3.9	9.7	10.4	2.1
Tourism	33.2	11.9	24.0	3.8	-9.1
Transportation, Storage & Communication	2.5	2.4	3.6	2.9	2.6
Business & General Services	2.5	1.4	2.5	1.6	0.7
Government Services	0.0	2.5	2.5	0.0	3.9
GDP at Factor Prices	3.7	4.8	7.9	4.8	-2.6

Sources: Barbados Statistical Service, Central Bank.

B. Balance of Payments, Monetary, and Fiscal Position

In a small open economy such as Barbados, there is a very close connection between the level of overall production and the state of the balance of payments. During the period of strong, export-led growth from 1976 to 1980, the current account of the balance of payments improved from a deficit of US\$85 million to a deficit of only \$27 million, deficits which were easily financed by autonomous capital inflows. In fact, large external borrowings by the Government of Barbados to finance budgetary operations produced a substantial increase in net foreign reserves which climbed from US\$17.0 million at the end of 1976 to \$82.4 million at the end of 1980.

Initially, the declining export receipts resulting from the world recession were not matched by a decline in imports, in part due to a continuing construction boom in the private sector but primarily due to expansionary fiscal and credit policies by the GOB. In effect, the government gambled that the recession would be brief. To finance the resulting loss in foreign exchange reserve the government contracted a US\$30 million Euro dollar loan and the Central Bank borrowed \$16 million from foreign banks.

The monetary and fiscal consequences of expansionary fiscal and monetary policies are set out in Tables 3 and 4. In the small open Barbados economy, changes in aggregate demand are quickly reflected in changes in the current account. For example, in 1980, imports of goods and non-factor services were equal to 64.5 percent of GDP. In normal circumstances, the Central Bank must keep the creation of domestic bank reserves within fairly narrow limits to prevent an unacceptable deterioration in the current account. Expansion of credit beyond these limits must be financed externally.

Compounding the Central Bank's problem in 1981 was a significant deterioration in the public sector's fiscal position which is outlined in Table 4. The government increased personal income tax allowances by 50% in 1981 as part of a long term policy to reduce the proportion of direct taxes in total revenues. In addition, lower levels of profits reduced company income tax payments, and the level of public sector capital expenditures rose substantially as a result of rapidly rising construction costs. These factors in the absence of adequate compensating increases in indirect taxes had the effect of increasing the public sector deficit as a proportion of GDP from 3.9 percent in the 1980/81 fiscal year to 9.0 percent in 1981/82. Moreover, in a country like Barbados without a well-developed domestic capital market, increases in domestically financed public sector debt translate fairly directly into increases in domestic bank reserves. This tends to cause a further expansion of money and credit and a further deterioration in the external accounts.

C. Stabilization Measures

Faced with this situation and the prospect of continuing stagnation in its export markets, the government of Barbados announced a series of corrective measures in 1982. Those measures include on the fiscal side a cut in capital expenditures in both nominal and real terms and a decision to

TABLE 2

Balance of Payments
CY 1980-1983

(Millions of U.S. Dollars)

	<u>1980</u>	<u>1981</u>	<u>Estimated</u> <u>1982</u>	<u>Projected</u> <u>1983</u>
I. <u>CURRENT ACCOUNT</u>	-27.1	-125.0	-93.0	-79.5
<hr/>				
A. <u>Trade Account</u>	-343.6	-412.5	-337.5	-347.5
a. Merchandise Exports (FOB)	181.8	163.7	166.5	185.0
b. Merchandise Imports (CIF)	525.4	576.2	504.0	532.5
<hr/>				
B. <u>Services, net</u>	295.0	269.4	221.0	279.5
c. Freight and Insurance, net	7.6	4.7	-	-
d. Travel, net	234.5	241.9	-	-
1. Credit	253.7	264.1	245.5	260.0
2. Debit	19.2	22.2	-	-
e. Transportation, net	38.5	16.6	-	-
1. Credit	64.7	44.0	-	-
2. Debit	26.2	27.4	-	-
f. Investment Income, net	-8.5	-17.4	-22.0	-
1. Credit	10.8	10.7	-	-
2. Debit	19.3	28.0	-	-
g. Government, n.i.e., net	5.8	13.3	-	-
h. Other Services, net	17.0	10.2	-	-
1. Credit	60.4	63.1	-	-
2. Debit	43.4	52.9	-	-
<hr/>				
C. <u>i. Unrequited Transfers</u>	21.5	18.1	23.5	28.5
1. Official, net	-2.3	-9.0	-	-
2. Private, net	23.8	27.1	-	-

	<u>1980</u>	<u>1981</u>	<u>Estimated</u> <u>1982</u>	<u>Projected</u> <u>1983</u>
II. Capital Account (excluding change in reserves)	61.6	121.4	63.0	57.0
A. Investment & Other Long Term Capital	33.6	77.7	56.5	49.5
1. Private Sector net	6.8	28.3	45.0	45.0
(a) Direct Investment	0.9	7.2	-	-
(b) Portfolio Investment	5.9	21.1	-	-
2. Public Sector	26.9	49.4	11.5	4.5
B. Short-term Capital	25.1	31.2	13.0	-
1. Public Sector	-0.7	-0.1	-	-
2. Trade Credit	25.0	26.0	-	-
3. Other Short- term	0.8	5.2	-	-
C. Financial Institutions	2.9	12.6	-6.5	7.5
1. Central Bank	0.7	8.2	-	-
2. Commercial Bank	2.2	4.4	-	-
III. Errors and Omissions	-14.5	-37.8	-	-
IV. <u>Change in Net Foreign Assets.</u>	+20.0	-41.4	-30.0	-22.5
V. Financing of Deficit				
Transaction of the Central Bank with:				
IMF	-5.5	-2.1	25.5	16.5
Other Monetary Authorities	-2.0	3.0	-1.0	-1.0
Other Financial Institutions	-	16.0	-	-
Changes in International Reserves (-increases)	-12.5	+24.5	+5.5	+7.0

	<u>1980</u>	<u>1981</u>	<u>Estimated</u> <u>1982</u>	<u>Projected</u> <u>1983</u>
Memorandum:				
International Reserves	82.4	57.9	52.4	45.4
In months/imports	1.9	1.2	1.2	1.0

Source: Central Bank of Barbados, Balance of Payment of Barbados 1981, Tables 2 and 3, plus Central Bank estimates for 1982/83

TABLE 3

Net Credit From Consolidated Banking System

	(BDS\$ million)					Estimated	
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	
Net Credit of banking system	456.0	472.2	592.1	668.3	887.0	1037.8	
To Public Sector	93.5	58.0	73.0	58.6	120.9	-	
To Non-financial Private Sector	352.7	397.5	495.3	593.0	723.1	795.4	
<u>Memorandum</u>							
Money Supply (currency plus demand-deposits)	122.2	140.0	192.9	222.0	221.7		
Liabilities of Banking system to the Private Sector	422.9	482.5	606.0	711.1	801.5		

Source: IBRD. Economic Memorandum on Barbados, May 28, 1982, Table 6.1.

TABLE 4

Fiscal Position of Consolidated Public Sector

	(BDS \$ million)		
	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>
Current Revenue	568.5	603.8	730.8
Current Expenditure	483.5	566.9	656.2
Current Surplus/Deficit	85.0	36.9	74.6
Capital Expenditure Plus Net	150.0	204.5	194.2
Overall Surplus/Deficit	65.0	167.6	119.6
Externally Financed	81.4	98.8	42.0
Domestically Financed	-16.4	68.8	77.6

Source: IBRD, Economic Memorandum, Table 5.6

TABLE 5

Central Government Revenues

(BDS\$ millions)

	<u>1980/81</u>	<u>Fiscal Year</u>	
		<u>1981/82</u>	<u>1982/83</u>
		<u>Preliminary</u>	<u>Projected</u>
<u>Taxes on Net Income and Profit</u>	159.8	164.7	175.6
Companies	64.7	60.0	65.0
Industrial	89.0	97.0	102.0
Others	6.1	7.7	8.6
<u>Employment Levy</u>	4.2	-	0.3
<u>Health Levy</u>	-	1.2	4.8
<u>Training Levy</u>	-	0.6	1.2
<u>Taxes on Property</u>	21.6	20.3	25.3
<u>Taxes on Domestic Goods and Services</u>	108.2	119.1	153.6
<u>Import Duties</u>	89.8	90.0	97.0
<u>Other Taxes</u>	5.0	4.8	13.3
<u>Non-Tax Revenue</u>	37.0	36.2	38.5
<u>Total Current Revenue</u>	425.6	437.1	509.0

Source: IBRD, Economic Memorandum, Table 5.1.

support only ongoing projects or those that are externally financed; strict controls on the growth of current public sector expenditures; the introduction of transport and health levies and a package of tax measures (See Table 5) expected to yield the equivalent of 3 percent of GDP; and revisions in tariffs of major public enterprises. It is expected that these measures will reduce the consolidated public sector deficit to less than 2 percent of GDP in the FY 1983/84 fiscal year.

On the monetary side, a number of measures have been taken, including limits on the growth of consumer credit, attempts to significantly narrow the differential between domestic and international interest rates in order to reduce private capital outflows, and an increase in the level of required bank reserves by five percentage points in order to limit the impact of recent fiscal deficits on money and credit expansion. In addition, the Central Bank has repeatedly increased its discount rate to reduce the expansion of private credit.

On the basis of these stabilization measures, the GOB negotiated a 20 month Standby Agreement with the IMF for SDR 31.875 million plus a Compensatory Financing Facility arrangement of SDR 12.6 million for 1982.

D. Prospects for 1982/83 and Unfinanced Foreign Exchange GAP

Despite the fundamentally sound state of the Barbadian economy, in the near term, the economy faces substantial difficulties. The 1982 current account deficit is projected to be \$93 million, equal to 10 percent of GDP, and is projected to decline only to \$79.5 million in 1983. Some of this deficit reflects the interest on the Central Bank's 1981 borrowing which boosted the debt service ratio to 13 percent in 1982 from 6 percent the previous year. Service payments on external public and publicly generated debt are projected to increase to \$25.2 million in 1982, \$33.5 million in 1983, peak at \$49.4 million in 1984, and gradually decline thereafter.

Contrary to what might appear to be the case, imports have responded as predicted to tighter monetary and fiscal policy. Recent trends in imports by major import category are summarized in Table 6. It is clear from the table that there has been a very substantial contraction in imports of consumer goods and intermediate goods (-11.7% and -25.4% respectively in the first half of 1982 when compared with the same period a year earlier). This has been obscured by a very substantial rise in imports of machinery and construction materials (up 25.4% in the first half of 1982) associated with two large externally financed investment projects.

Moreover, Barbados' external liquidity position is rather more precarious than its balance of payments and official reserve statistics would indicate. A rapidly increasing proportion of the gross foreign exchange reserves of the Central Bank are accounted for by its balances in the CARICOM Multilateral Clearing Facility. The bulk of these balances are in non-convertible currencies and are thus not generally available for most external obligations. The proportion of gross Central Bank reserve assets accounted for by such balances rose from 6.1 percent at the end of 1980 to 69.8 percent at the end of September 1982, US\$42.6 million. When it is taken into account that Foreign Exchange Reserves, even including those balances, are projected to fall to 1.2 months import cover by the end of 1982 (far below

the two to three months cover that would be considered normal), this is a potentially precarious position.

It is clear from the data presented on Table 2 that measured in the conventional sense, Barbados has an unfinanced balance of payments gap for the two year period 1982/83 of US\$12.5 million. In other words, given fiscal and monetary policies that are likely to be followed, market forces would produce a net excess demand for foreign exchange which, in the absence of additional external financing would be met by a reduction in gross reserves of this amount.

There is, however, a more fundamental sense in which the balance of payments gap is substantially larger. Referring again to Table 6, it is clear that the monetary and fiscal stringency imposed by the GOB has significantly reduced imports of consumer and intermediate goods in both nominal and real terms.

Had the GOB not permitted import levels to drop in real terms, the measured ROP gap would be substantially larger. From the data presented on Table 6, and taking into account a current rate of inflation of about 10 percent, there is an approximate balance of payment shortfall of something on the order of US\$50 million over and above that identified on Table 2 for the two year 1982-83 period.

E. Adequacy of Stabilization Measures and Prospects for Recovery

In extending this ESF Cash Transfer, the Mission proposes no economic policy conditions other than continued adherence by the Government of Barbados to the terms of its standby agreement with the IMF. In making this proposal, the Mission believes that the package of monetary and fiscal measures agreed to between the Government of Barbados and the Fund are adequate to bring about recovery and both external and internal balance in the relatively near term.

As has been discussed at some length in the previous sections, the recent deterioration in economic conditions in Barbados has been very largely a result of external circumstances, chiefly the world recession and to a large extent the state of the world sugar market. The former is a temporary phenomenon which is likely to be reversed over the next year although recovery of world demand is likely to be slow. Sugar is highly problematical and no long term price recovery is likely. However, counter-balancing this is the very considerable buoyancy, even through the recession, of exports of clothing and electronics.

A serious concern, however, is the ability of Barbados to maintain price competitiveness, particularly in tourism. As the figures for the GDP deflator on Table 1 clearly show, the level of price increases in Barbados over the last several years has consistently exceeded that of its principal export market. This trend has continued in 1982 and rates of price increase are running about 5 percentage points ahead of US inflation levels. Although this trend is inconsistent with a maintenance of a fixed exchange rate of the Barbados dollar vis-a-vis the U.S. dollar, the Government of Barbados has resisted suggestions for devaluation.

TABLE 6

Composition of Retained Imports 1980/82
(BDS\$ million)

	<u>Consumer Goods</u>	<u>Intermediate Goods</u>	<u>Machinery & Construction Materials</u>	<u>Other</u>	<u>Total</u>
January-June, 1980	168.2	146.5	134.3	-0.9	448.2
July-December, 1980	176.3	177.1	130.9	-1.7	482.7
January-June, 1981	181.2	171.1	147.1	2.0	501.5
July-December, 1981	191.5	197.7	162.7	0.7	552.6
January-June, 1982	160.0	127.6	185.0	1.9	474.5

Source: Central Bank of Barbados, Economic and Financial Statistics, October 1982, Table No. 6.

III. PROGRAM DESCRIPTION

A. U.S. Interests and Assistance Strategy

Barbados is experiencing a severe economic decline; GDP has declined 7.5% in the last two years. The unemployment rate has increased by 5 percentage points to 15 percent. Output in all the major productive sectors--manufacturing, sugar, and tourism--has declined as a result of adverse external developments. Supported by an IMF Standby Agreement, the country is now carrying out a difficult adjustment program. The proposed AID program loan will complement the IMF arrangement by (a) dispensing urgent balance of payments assistance to permit Barbados to finance critically needed imports, (b) providing the stimulus for a recovery of the productive sectors through sustaining the levels of credit available, and (c) limiting the adverse impact of budgetary stringencies on critical infrastructural projects.

The AID program will support a country that is of strategic importance to the United States. Barbados is located astride major shipping lanes through which a substantial portion of U.S. oil imports flows. The country has important physical assets whose use by hostile power would be detrimental to U.S. interests. The country also is a leader in regional politics and is seen as a model of democratic institutions and free enterprise economic development. In addition, Barbados is a vital cog in the regional security posture both for its defense forces and for its leadership in the formation of the recent regional security understanding which includes, in addition to Barbados, Antigua, Dominica, St. Lucia and St. Vincent.

Barbados has been among the most democratic of all Third World countries, and this has contributed significantly to the country's outstanding record of political stability. The program will be supporting the country's traditional reliance on private initiative and market forces and export-led growth strategy.

In sum, the overall U.S. aims in Barbados which will be furthered by the project are:

- to lay the foundations for self-sustaining growth;
- to fortify a country that is friendly to us;
- to support an economy which is a model of free enterprise development in the Caribbean;
- to help the country achieve its full development potential;
- to preserve the country's parliamentary democratic political system, and;
- to strengthen the country in order that it may assume greater importance in regional affairs.

Resources provided under the AID program will also further the Mission's regional strategy under the Caribbean Basin Initiative by strengthening a key country in the Caribbean region which has, until very recently, demonstrated the outstanding potential of a growth strategy based on export promotion, private initiatives, and a reliance on free market mechanisms.

B. Program Objectives

The objectives of the \$7 million program described in this PAAD are:

- the provision of immediate balance of payments support to Barbados;
- the stimulation of the productive sectors, especially export-oriented manufacturing, through finance for critical requirements, and;
- the financing of priority infrastructural projects that are critical to the achievement of the country's development potential.

These objectives will be met through an immediate cash transfer of \$7 million of ESF monies.

C. Justification for Cash Transfer

The Mission had originally contemplated a continuation of the conventional local counterpart financing of donor assisted projects through the Caribbean Development Facility (CDF) in FY 1983. As further discussed in Section III. D, since 1978 AID has made four loans through the Caribbean Development Bank (CDB) totalling \$65.5 in support of the regional CDF program. Jamaica, Guyana and Barbados participated in the first three loans (Eastern Caribbean LDC's and Belize received support under CDF I) and Jamaica and Barbados continued to receive assistance under CDF IV. Guyana, however, is no longer eligible and Jamaica is currently receiving substantial other CDF-type assistance. Therefore, given the nature of Barbados' present economic difficulties and the proposed use of a targeted rediscount financing scheme, implementation through a regional institution was not deemed appropriate and the Mission has elected to develop a direct bilateral approach in FY83.

In addition, in designing the program, the Mission weighed the merits of a cash transfer and commodity import program (CIP) and the experience with both in other countries in the Caribbean Basin and elsewhere. Based on an analysis of the advantages and disadvantages of each approach, the Mission concluded that the cash transfer mechanism was the only means to achieve the objectives of this \$7.0 million program. The economic situation demands a rapid immediate infusion of foreign exchange resources, with a minimum of procedural delays. Such an infusion would help stimulate the productive sectors, all of whom are encountering serious difficulties. Systems already exist through which these additional resources can be channelled quickly to the private sector with reasonably good assurances of reaching productive enterprises. Although the CIP approach would provide more precise control over the use of incoming foreign exchange given the need for an immediate infusion of resources the marginal gains in accountability from the CIP approach for this particular program do not justify the initial delays this mechanism would entail. Based on an examination of the banking system, we have estimated that from 3 to 6 months would be required to set up a CIP in Barbados. Moreover, the procedures and controls required to implement a CIP would impose a degree of public sector intervention and control over the allocation and use of foreign exchange which would be contrary to both the

GOB's and USG's policy of relying on market mechanisms in this area. The cash transfer mechanism will also require less staff to administer, both at the Central Bank of Barbados and the Mission, at a time when there is already a heavy demand on the limited staff to design and implement the expanding RDO/C assistance program. For these several reasons, the Mission concluded that the cash transfer approach was the most appropriate.

D. U.S. Dollar Resources

The \$7 million ESF funds will be provided to the Government of Barbados through a simple cash transfer to the Central Bank of Barbados. Funds will finance Barbados imports from the U.S. Such imports will be monitored through review of customs receipts.

The Government of Barbados will establish a \$3.5 million fund to provide credit to the private sector. In addition \$3.5 million will be provided to the Government to sustain its investment in human and physical infrastructure.

1. Central Bank Discount Mechanism

The discounting of loans to commercial banks to be passed on to the private sector is a standard mechanism by which the Central Bank ensures that the credit needs of the agriculture, manufacturing and tourism sectors are met. Since the present shortage of credit to the private sector does not arise from any structural deficiency in the Island's economy, but rather from the necessity for a general tightening of credit to maintain aggregate demand at a level compatible with shrinking overall resources, the Mission prefers to allow market processes to allocate this credit to its highest value uses.

The CBB will use \$3.5 million to establish a discount line separate (for purposes of maintaining accountability) but otherwise indistinguishable from its normal discounting procedures. Credit from this discount line will be extended by commercial banks to the private productive sector with particular emphasis on operations which directly or indirectly contribute to exports. Specific priority will be given to:

- net foreign currency earners (exporters)
- domestic producers of raw materials and intermediate goods which serve as direct inputs to production for export;
- providers of essential services to exporters (e.g product transportation services); and
- import substitution producers manufacturers.

For the most part, users of the fund are envisioned to be small and medium sized producers engaged in labor-intensive operations. As such, the lending is consistent with the basic human needs thrust of the Foreign Assistance Act. In addition, cooperatives and private voluntary organizations will be eligible for loan subject to normal commercial bank eligibility criteria.

An estimate of the amount required for discounting is made in May by the Central Bank in consultation with the commercial banks and it is made available for the year from July to June. The commercial banks also indicate what their needs are likely to be by major category. For the period July, 1982 - June, 1983 the Central Bank has tentatively allocated \$5.5 million to cover the demands of commercial banks for discounting in manufacturing, tourism and non-sugar agriculture. Based on recent consultations with commercial banks, the Central Bank estimates that an additional minimum of \$4.5 million will be required through calendar year 1983. The \$3.5 million in local currency generated by the proposed cash transfer will contribute to filling this requirement. These loans will represent a mixture of short-term working capital and medium term machinery and equipment loans. This level of resources should be easily absorbed and put to productive use by the private sector as confirmed by our consultations with the commercial banks and the demand projections developed by the World Bank.

The Central Bank has developed some facility in managing the discount schemes, the first of which was introduced in 1974, two years after the Bank's establishment. It will rely upon its usual procedures to assure that loan proceeds are used for bona fide productive purposes. The Central Bank will provide RDO/C with monthly reports providing a description of the status of the special discount line and a list of lending transactions by participating banks.

The Central Bank will agree to consult with RDO/C prior to extending loans under the rediscount scheme for agricultural products or activities if the effect of such activity would be cause or threaten to cause serious injury to the production, marketing or pricing of United States agricultural products. However, it is not anticipated that such a situation will arise.

F F

The terms and conditions for commercial bank loans supported by the discount line will be the same as those provided by the commercial banks or any other business loan. The loans from the CBB will carry an interest rate to be agreed upon which will reflect the marginal cost of credit in Barbados. Such an interest rate will prevent a misallocation of resources. Also, the funds made available under the scheme will not be subject to reserve requirements. Prior to the initiation of rediscount operations, RDO/C and the Central Bank will review the procedures to be utilized, including interest rates, to assure funds flow as efficiently as possible.

It should be noted that to assume the fullest possible complementarity with other donor efforts, RDO/C has had consultations with representatives of the World Bank and the Inter-American Development Bank (IDB). The World Bank is contemplating a \$10 million loan over 3 years to

Barbados in support of the Central Bank's rediscount program. The Central Bank intends to use the funds principally for longer term, fixed asset development in tourism and manufacturing. The World Bank funding is not expected before July, 1983 and both Central Bank and World Bank officials give priority to movement of AID funds and to direct the World Bank resources into areas not covered by the AID program. In addition, the IDB has expressed a preliminary interest in a co-financing arrangement with the World Bank under the rediscount facility for working capital. Such IDB participation would not lead to any disbursements prior to the beginning of 1984, at the very earliest. Thus, the AID-financed program is both timely in terms of the Central Bank's credit needs and mutually supportive of other donors' planned activities in this area.

2. Local Counterpart Financing of Infrastructure Projects

A second element of the program loan will be support for Barbados' local counterpart requirements of externally-financed infrastructure projects. From 1978 until the present, Barbados has been a participant in the Caribbean Development Facility Program (CDF) of the Caribbean Group for Cooperation in Economic Development (CGCED). The main purpose of CDF is to help finance essential imports and to provide supplementary financing of projects and programs for which international institutions or other external lenders are financing foreign exchange components. From 1978-1982, AID provided loan resources totaling \$65.5 through the CDB under the CDF program. To date, resources under CDF I, II and III for Barbados totalling \$8.0 million have been fully disbursed. Under CDF IV, \$5.0 million has been committed to Barbados. Of that total, RDO/C has approved vouchers totalling \$1.8 million. An additional estimated \$1.5 million will be accrued by December 31, 1982 with the balance of \$1.7 million fully accrued by the March 31, 1983 PACD for CDF IV.

These contributions have made it possible for the Government of Barbados to complete the Oistins Fish Terminal complex, Bridgtown Sewers and the Samuel Jackman Prescod Polytechnic, as well as to undertake several other as yet incompletd major infrastructure projects which are vital to the country's economic and social progress. Principal among the latter are the IBRD-financed First Education and Industrial Estates projects. Both are crucial to the Government's program for expansion of its productive capacity and human resource development and will receive support under the AID program loan for country's continuing local counterpart requirements.*

a. Industrial Estates - IBRD

This component of the IBRD's Industrial Development and Export project is directly designed to help carry out the programs of the Government's Industrial Development Plan. The objectives of the project include the expansion of industrial output, exports and the generation of increased levels of employment. Funding allocated for this project component is US\$20 million provided on a 50/50 basis by the government and the World

It is anticipated that some 300,000 sq. ft. of factory space would be constructed with the available funding. Already, 41,000 sq. ft. is completed and a further 32,000 is now under construction. The present works

* Other eligible projects may be considered in addition to or instead of these two.

are benefiting from CDF resources and by March 31, 1983 a total of 73,000 sq. ft. is expected to have been completed. The government has obtained a one year extension of the project to September 30, 1984 occasioned by the reduction of the capital works budget in 82/83, and continued support under the AID program loan will contribute to the attainment of this goal. During fiscal year 1983 the Industrial Development Corporation plans to construct approximately 120,00 sq. ft. A total of \$1.8 million will be allocated to this activity from the proposed program.

b. 1st Education Project - IBRD

The project provides for ten new primary schools, the expansion of 7 secondary schools, including equipment and furnishings, and the expansion and equipping of the Erdiston Teachers' Training College and the Barbados Institute of Management and Productivity (BIMAP)-both tertiary level institutions. Total funding of the project is \$21 million of which the World Bank is providing \$9 million. Four primary schools have been completed, two Secondary schools expanded and the tertiary institutions also expanded.

The project is already past the original completion date due to cutbacks in the GOB capital budget, and no doubt would not have reached this stage without the assistance of earlier CDF resources. Continued support for the project will enable planned activities to materialize. Work is due to commence at four more school sites during the period of this program loan and three others will be brought to a completion. A total of \$1.7 million will be allocated to this activity from the proposed program.

G. Negotiating Status

Technical officers of the Central Bank, the Government's Ministry of Finance and Planning and AID have been in close collaboration during the analysis leading to the proposed program.

Upon approval by AID/Washington of the PAAD, the Project Agreement will be negotiated with the Government of Barbados. The Mission intends to sign the Project Agreement and obligate funds no later than February 28, 1983. This will permit the disbursement of funds to coincide with the GOB's new fiscal year which begins in April, 1983, and will also satisfy the March 31, 1983 deadline for obligation of FY82 funding for the Eastern Caribbean under the CBI.

N. The GOB will not be required to allocate a fixed amount of counterpart funds to cooperatives and PVO's RDO/C already is providing significant funds to cooperatives-PVO's in Eastern Caribbean, including Barbados. Moreover, cooperatives and PVO's will be eligible under the on lending program. However, their small number and lack of absorptive capacity imply that they are unlikely to make significant use of such a mechanism.

Barbados: Summary of the Financial Program for 1982/83

I. Major Assumptions

1. Real GDP is expected to drop by 2.2 per cent in 1982 and recover by 1.5 per cent in 1983. Agricultural production is expected to increase moderately in 1983 after declines in 1981 and 1982. A recovery is also expected for the tourist sector in 1983 after declines in the two previous years.
2. The terms of trade are expected to deteriorate by about 4 per cent in 1982 with the drop in sugar prices, and to improve by 1 per cent in 1983. For price and quantity assumptions on sugar and molasses' exports see Statistical Appendix Table 28.
3. The ratio of money and quasi-money to GDP is expected to remain level at 43.7 per cent in 1982 and 1983.
4. No change is assumed in the nominal exchange rate of BDS\$2 to US\$1.
5. Inflation, as measured by the annual average rate of increase in the consumer price index, is projected to decline from 14.6 per cent in 1981 to 9.7 per cent in 1982 and to 8.5 per cent in 1983.

II. Targets

1. The balance of payments overall deficit is to be reduced from US\$54 million in 1981 to US\$32.5 million in 1982 and to US\$7.5 million in 1983, or from the equivalent of 5.8 per cent of GDP in 1981, to 3.2 per cent in 1982, and to 0.7 per cent in 1983. The overall deficit is defined in terms of changes in the net international reserves of the monetary authorities, and is to be tested quarterly.

The domestic investment is expected to rise to 25 per cent of GDP in 1982-83, as a drop in public investment is offset by an increase in private investment in two large cement and power projects.

III. Principal Elements of the Program

1. Fiscal policy

The overall deficit of the Central Government and the National Insurance Fund is to be reduced from BDS\$123 million, the equivalent of 6.6 per cent of GDP, in FY 1981/82 to BDS\$72 million, or 3.5 per cent of GDP in FY 1982/83. Revenues are expected to increase by the equivalent of 1.6 per cent of GDP, boosted by a package of discretionary measures which are described in detail in Statistical Appendix Table 16. The combined impact of the revenue measures is estimated at 2.6 to 3 per cent of GDP, but this will be partially neutralized by such factors as

lower income tax receipts, a decline in dutiable imports, etc., whose combined net effect adds up to around 1 per cent of GDP. The increase in revenues will be sufficient to cover the public sector wage increase of 14 per cent, for the two-year period FY 1982/83-FY 1983/84 paid retroactive to April 1982, while maintaining the current account surplus of the Central Government and National Insurance Fund at BDS\$50 million (2.5 per cent of GDP) in FY 1982/83. Capital expenditure and net lending has been cut back to BDS\$122 million, a reduction equivalent to 3.3 per cent of GDP compared with the preceding year.

2. Money and credit

(a) A limit on the expansion of net domestic assets of the monetary authorities of BDS\$62 million for the 12 months ending March 30, 1983, which coincides with the Government's fiscal year, with quarterly ceilings as performance criteria. The ceiling for credit expansion for the 12 months ending in March 1984 is to be negotiated in early 1983.

(b) A limit on the expansion of bank credit to the nonfinancial public sector of BDS\$35 million for the 12 months ending March 30, 1983, with ceilings as performance criteria.

(c) Alignment of interest rates with international levels. The permitted average lending rate of banks has been raised to 15 per cent, the minimum deposit rate to 8 per cent, the general rediscount rate to 22 per cent, and the rate on Treasury bills is currently 13 per cent.

3. External sector

(a) New authorizations for external borrowing by the nonfinancial public sector, and the private sector with government guarantee with maturities of one to ten years will not exceed US\$35 million during the program period, subject to review in early 1983.

(b) Exchange rate to be kept under review in light of developments in the balance of payments and in wage rates.

(c) Existing multiple currency practice to be eliminated by next budget in April 1983.

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

- | | |
|---|-----|
| 1. <u>FAA Sec. 481.</u> Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country; or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully? | No. |
| 2. <u>FAA Sec. 620(c).</u> If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? | No. |

3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No.
4. FAA Sec. 532(c), 620(a), 620(E), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? No.
5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981. N/A.
6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property? No.

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?

No. Barbados has had an OPIC agreement since March 11, 1961

8. FAA Sec. 620(o): Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?

No.

(b) If so, has any deduction required by the Fishermen's Protective Act been made?

9. FAA Sec. 620(r); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds?

No.

10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment?
(Reference may be made to the annual Taking into

N/A.

Consideration" memo:
"Yes, taken into account
by the Administrator at
time of approval of
Agency OYB." This
approval by the
Administrator of the
Operational Year Budget
can be the basis for an
affirmative answer during
the fiscal year unless
significant changes in
circumstances occur.)

11. FAA Sec. 620(t). Has the
country severed
diplomatic relations with
the United States? If
so, have they been
-resumed and have new
bilateral assistance
agreements been
negotiated and entered
into since such
resumption?
12. FAA Sec. 620(u). What is
the payment status of the
country's U.N.
obligations? If the
country is in arrears,
were such arrearages
taken into account by the
AID Administrator in
determining the current
AID Operational Year
Budget? (Reference may
be made to the Taking
into Consideration memo.)
13. FAA Sec. 620A; FY 1982
Appropriation Act Sec.
520. Has the country
aided or abetted, by
granting sanctuary from
prosecution to, any
individual or group which
has committed an act of
international terrorism?
Has the country aided or

No.

Barbados is in full
compliance with its
UN obligations as of
December 31, 1981.

No.

abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No.

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

No.

16. ISDCA of 1991 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1991, and failed

No. (Barbados has observer status in the Non-Aligned Movement. While they did send an observer to this meeting, they did not sign the communique.)

to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

17. ISDCA of 1981 Sec. 721.
See special requirements for assistance to Haiti.

N/A.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

N/A

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

Barbados has taken a strong stand regionally and in international forums in support of human rights. It has an excellent record in adherence to human rights.

b. ISDCA of 1981, Sec. 725(D). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.?

N/A.

c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier?

N/A.

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance Funds, B.2. applies to projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(D).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project;
(b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that amount)?

Congressional notification will be sent to Congress in January 1982. Funds are within Operational Year Budget.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,00, will there be

Yes.

(a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislation is required.

4. FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.)

N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

N/A

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

Bilateral project mode is most effective means of achieving economic impact designed although Project strongly complements and assists programs and assists program financed by other multilateral donors.

7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

The objectives of the assistance provided include increasing the flow of international trade, fostering private initiative and competition and improving the technical efficiency of industry and commerce. Project's stimulation of productivity will impact favorably on labor union improvement.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Project will have a definite positive effect in expanding opportunities for U.S. investment and trade as well as stimulating export of local products into the U.S. markets.

9. FAA Sec. 612(b), 636(h);
FY 1982 Appropriation
Act Sec. 507. Describe
steps taken to assure
that, to the maximum
extent possible, the
country is contributing
local currencies to meet
the cost of contractual
and other services, and
foreign currencies owned
by the U.S. are utilized
in lieu of dollars. Local currency equivalent of U.S.
dollar inputs will be on-lent to
private sector through commercial
banks for credit to productive sec-
tors.
10. FAA Sec. 612(d). Does
the U.S. own excess
foreign currency of the
country and, if so, what
arrangements have been
made for its release? No.
11. FAA Sec. 601(e). Will
the project utilize
competitive selection
procedures for the
awarding of contracts,
except where applicable
procurement rules allow
otherwise? Yes.
12. FY 1982 Appropriation Act
Sec. 521. If assistance
is for the production of
any commodity for export,
is the commodity likely
to be in surplus on world
markets at the time the
resulting productive
capacity becomes
operative, and is such
assistance likely to
cause substantial injury
to U.S. producers of the
same, similar or
competing commodity? Project will have no adverse effect
on the U.S. economy.
13. FAA 118(c) and (d).
Does the project comply
with the environmental
procedures set forth in
AID Regulation 16? Does Yes.

the project or program take into consideration the problem of the destruction of tropical forests?

14. FAA 121(d). If a Sabel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

N/A

B.. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

2. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and

N/A

otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

e. FAA Sec. 110(b).
Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character."

f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? Yes.

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage

institutional development;
and supports civil
education and training in
skills required for
effective participation in
governmental processes
essential to self-government.

2. Development Assistance Project
Criteria (Loans Only)

a. FAA Sec. 122(b).
Information and conclusion
on capacity of the country
to repay the loan, at a
reasonable rate of interest.

N/A

b. FAA Sec. 620(d). If
assistance is for any
productive enterprise which
will compete with U.S.
enterprises, is there an
agreement by the recipient
country to prevent export
to the U.S. of more than
20% of the enterprise's
annual production during
the life of the loan?

c. ISDCA of 1981, Sec. 724
(c) and (d). If for
Nicaragua, does the loan
agreement require that the
funds be used to the
maximum extent possible for
the private sector? Does
the project provide for
monitoring under FAA Sec.
624(g)?

3. Economic Support Fund
Project Criteria

a. FAA Sec. 531(a). Will
this assistance promote
economic or political

Project will directly assist Govern-
ment of Barbados with its economic
adjustment program and promote pro-
duction and employment thus contri-
buting to both economic and political
stability.

stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? NO

- c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives? NO

- d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes.

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? Yes.

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? N/A

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be N/A

financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

5. FAA Sec. 604(a). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one or these areas? N/A
6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates? N/A
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other N/A.

Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? N/A

9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? N/A

3. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services to be used? N/A

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)? N/A

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? N/A

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes.

4. Will arrangements preclude use of financing: Yes.

a. FAA Sec. 104(f); FY 1982 Appropriation Act Sec. 525: (1) To pay for performance of abortions as a method of family

planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

d. FAA Sec. 662. For CIA activities?

e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?

f. FY 1982 Appropriation Act, Sec. 503. To pay pensions, annuities, retirement pay, or

adjusted service
compensation for military
personnel?

g. FY 1982 Appropriation
Act, Sec. 505. To pay
U.N. assessments,
arrears or dues?

h. FY 1982 Appropriation
Act, Sec. 506. To carry
out provisions of FAA
section 209(d) (Transfer
of FAA funds to
multilateral
organizations for
lending)?

i. FY 1982 Appropriation
Act, Sec. 510. To
finance the export of
nuclear equipment, fuel,
or technology or to train
foreign nationals in
nuclear fields?

j. FY 1982 Appropriation
Act, Sec. 511. Will
assistance be provided
for the purpose of aiding
the efforts of the
government of such
country to repress the
legitimate rights of the
population of such
country contrary to the
Universal Declaration of
Human Rights?

k. FY 1982 Appropriation
Act, Sec. 515. To be
used for publicity or
propaganda purposes
within U.S. not
authorized by Congress?



MINISTRY OF FINANCE & PLANNING

GOVERNMENT OF BARBADOS

GOVERNMENT HEADQUARTERS, BAY STREET, BARBADOS

Our Ref:

Your Ref:

Tel:

1982-12-20 Dear:

Mr. Bill Wheeler,
Director,
Regional Development Office/Caribbean,
C/O U.S. Embassy,
BRIDGETOWN.

ATTENTION: Mr. Terry Browne

Dear Mr. Wheeler,

I refer to the various discussions between officials from your Mission and officers from the Central Bank and the Ministry of Finance and Planning on assistance to Barbados. I am satisfied with the outcome of the discussions and now request that the resources made under the programme loans be distributed as follows:

- (1) US \$3.5 million to be channelled to private sector manufacturing industries through the Central Bank's discount mechanisms with the commercial banks which are designed to maintain and stimulate the level of activity in the productive sectors, and
- (2) US \$3.5 million in local counter part financing for on-going projects which are vital to the country's economic and social progress, principal among which are the IBRD Financed First Educational and Industrial Estates Projects-US \$1.5 million each.

The objectives of the programme are acceptable to the Government of Barbados and the Central Bank has indicated its willingness to undertake such measures as may be necessary to promote greater use of the funds available for discount.

The Government of Barbados welcomes the proposed injection of external assistance which it views as necessary to the satisfaction of the ceilings and targets under the Stand-by arrangement with the IMF without restricting activity in the productive sectors.

Yours faithfully,


MINISTER OF FINANCE AND PLANNING.

AGENCY FOR INTERNATIONAL DEVELOPMENT

ADVICE OF PROGRAM CHANGE

COUNTRY : Caribbean Regional
PROJECT TITLE : Barbados Economic Recovery and Private Sector Support Program
PROJECT NUMBER : 538-0100
FY 83 CP REFERENCE : None
APPROPRIATION CATEGORY : Economic Support Fund
LIFE OF PROJECT FUNDING : \$7,000,000
INTENDED FY 1983 OBLIGATION : \$7,000,000 Loan
LOAN REPAYMENT TERMS : 20 year repayment period with five years grace. Interest rate 5 percent.

We are advising of our intention to obligate in Fiscal Year 1983 up to \$7,000,000 as a cash transfer for the Barbados Economic Recovery and Private Sector Support Program. The funds involved are a part of the \$20 million earmarked for the Eastern Caribbean in the 1982 CBI Supplemental Appropriation.

The financial requirements for the program are \$7 million to cover the immediate balance of payments needs of the Barbadian economy and to rebuild foreign exchange reserves of the Central Bank of Barbados to more normal levels. The Government of Barbados covenants to provide a corresponding amount of local currency to help meet the credit requirements of the private sector and to meet the local cost requirements of donor assisted projects critical to the needs of the private sector.

TITLE Economic Recovery and Private Sector Support - Barbados		FUNDING SOURCE: ESF	AO, RO & N:	HEALTH:	PROPOSED OBLIGATION (In thousands of dollars)			
NUMBER 588-0100		NEW <input checked="" type="checkbox"/>	POPULATION:	ED. & HR:	SEL. ACT.:	INITIAL OBLIGATION FY 83	ESTIMATED FINAL OBLIGATION FY 83	LIFE OF PROJECT FUNDING: 7,000
GRANT <input type="checkbox"/>	LOAN <input checked="" type="checkbox"/>	CONTINUING <input type="checkbox"/>				7,000 (1)		ESTIMATED COMPLETION DATE OF PROJECT FY 84

Purpose: To stem the deterioration of the balance of payments; stimulate a recovery of the productive sectors; and provide local cost financing for essential infrastructure projects.

Project Background: Barbados has long served as a model of responsible and pragmatic economic development in the Eastern Caribbean. Its record of growth has been matched by few other developing countries. The adverse effects of the world-wide recession, however, has placed the country in serious economic difficulty. The combined projected current account deficit will be \$93 million and \$80 million in 1982 and 1983 respectively. Real growth has declined and virtually all the major productive sector activities have been affected causing high unemployment and balance of payment problems. The country needs and merits assistance to help alleviate its monetary and fiscal constraints and stimulate and promote the recovery of the economy.

Project Description: The proposed \$7.0 million program will take the form of an immediate cash transfer to the Central Bank of Barbados (CBB). \$4.5 million will be sold by the CBB to the commercial banking system for on-lending to private enterprises in the productive sectors. \$2.5 million will be used by the government of Barbados to generate its counterpart contribution for externally-funded infrastructure projects.

The local currency made available by the CBB sales to the commercial banking system will be used for loans to private concerns in the productive sectors, especially manufacturing, with emphasis on credit for export-related production. The program will help promote U.S. exports to the country; a good portion of bank credit to the productive sectors finances imports, and the U.S. is Barbados' most important trading partner. The loans to the productive sectors will be made at market rates of interest, while the rates charged the banks by the CBB will be sufficiently attractive to insure that the banks make use of the funds. All the island's banks will be eligible for participation in the program.

The remainder of the proceeds will be used by the government for local cost financing of priority infrastructural projects. Without these funds, the government would not be able to proceed with its public

sector investment program, which, as a result of the current economic crisis, has been severely curtailed.

Relationship of Project to AID Regional Strategy: AID has strongly and consistently supported efforts to increase the employment and productivity of the region's citizens. This effort is consistent with the initiation of limited bilateral programs in the region to assist the economies hard hit by the high rise of petroleum prices and the world-wide recession which followed. Equally important, this project will assist the Government of Barbados in taking advantage of the support and trade opportunities of the Caribbean Basin Initiative. Finally, it will support the continued political stability of this progressive and friendly nation.

Host Country and Other Donors: The host country will be utilizing both its public and private resources to implement the project and the projected benefits derived there-in are consistent with the host countries stated objectives.

Barbados is now supported by an IMF standby arrangement and has adopted a stringent adjustment program.

Beneficiaries: The direct beneficiaries will include the private sector firms receiving credit under that program and the beneficiaries of the infrastructure projects which will be supported by the program. The latter will include private enterprise and the public at large.